



GCR affirms PSG Konsult Limited's South African issuer rating of A_(ZA), on the back of sustained balance sheet strength; Outlook Stable

Rating Action

Johannesburg, 31 July 2020 - GCR Ratings ("GCR") has affirmed PSG Konsult Limited's national scale long and short-term issuer ratings of A_(ZA) and A1_(ZA), respectively, with a Stable Outlook.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook / Watch
PSG Konsult Limited	Long Term issuer	National	A _(ZA)	Stable Outlook
	Short Term issuer	National	A1 _(ZA)	

Rating Rationale

The ratings of PSG Konsult Limited ("PSGK") are underpinned by prudent risk management, with a large quantum of cash and cash equivalents supporting a strong and liquid balance sheet. This is complemented by sound cash generative capacity, no interest bearing debt and a strong group regulatory solvency position, contributing to a very strong cash flow and leverage assessment. These strengths are partially offset by moderate earnings and a business profile that is weighed down by a lack of market scale, although GCR positively factors in revenue diversification and a supportive distribution network.

PSGK is a South African based financial services group anchored to the South African market, consistently generating around 93% its of revenue in the country across three operating divisions (namely PSG Wealth, PSG Asset Management and PSG Insure). There are also regional and global offices in countries such as Namibia, Guernsey, Malta and Botswana, although these contribute a very small portion to the group's revenues. As such, the operating environment is shaped by the South African market, which has weakened since the last review.

The group's competitive positioning represents a rating constraint. Assets Under Management ("AUM") and Assets Under Administration ("AUA") equated to R230bn and R397bn at FY20 respectively, placing the group in the second-tier domestic asset manager category in GCR's view. Similarly, PSGK's insurance business is a fairly small market player, with a 4.4% share of the South African short-term insurance industry, based on Gross Written Premiums ("GWP"). A challenging operating environment is likely to limit material organic business growth, particularly in the asset and wealth management spaces, and GCR believes the entity is more likely to consolidate its existing market positions. That said, the entity does benefit from revenue diversity across business units and a largely retail client base that facilitates granular risk spreading (PSGK has over 390,000 clients, both individual and corporate). Its large registered advisor network is an integral part of the



distribution network (935 advisors spread across 260 offices throughout South Africa and Namibia as at FY20), which GCR believes complements the group's strategy and allows for cross selling of products offering a holistic financial proposition to clients, which plays an important role in client retention.

Risk is viewed to be contained and conservatively managed as highlighted by a high proportion of liquid assets (c.90% of investable shareholder assets) and no interest bearing debt as at FY20. During the review year, R100m of outstanding notes on PSGK's DMTN programme was redeemed early using available cash on hand. The balance sheet is further strengthened by strong cash flow generative capacity, which has resulted in incrementally higher levels of liquid assets over the review period. EBITDA to Net Finance Costs (that relates to investment contracts and lease liabilities) was also very strong at 23x at FY20. Furthermore, from a regulatory perspective, the group's insurance capital adequacy was maintained at a very strong level (FY20: 1.9x group SCR), and indications are that this can be sustained over the outlook horizon.

Earnings are moderate but stable, with the EBITDA margin trending consistently at 20% over the past three years. This attests to the prominence of stable income sources, with performance fees not having a material impact on operating margins. Looking ahead, potentially higher volatility in fund balances could induce earnings fluctuation, which is currently low relative to that of global asset managers. Still, operations are scalable and, over the long term, material growth in AUM and AUA could provide earnings impetus.

Liquidity is a rating strength, with PSGK having R2.3bn in cash and a further R749m of liquid assets on hand at FY20. Year-on-year growth in cash balances has been consistent and considerable, supported by strong cash flow generation. Overall, the absence of debt and the large quantum of liquid assets supports strong sources over uses coverage of over 2x, which is projected to be maintained over the next 12-18 months.

No group support has been factored into the ratings due to the investment holding status of the parent.

Outlook Statement

The Stable Outlook conveys GCR's expectations that the group will continue to retain a conservative balance sheet which will underpin liquidity and cash flow and leverage strength over the outlook horizon. While the operating environment will make it increasingly difficult to grow funds under management/administration, we think that earnings and cash generative capacity will be adequate to support the current credit profile of the group, and the entity is well positioned to withstand the negative impact of the COVID-19 pandemic.

Rating Triggers

Post the COVID-19 related disruption period, an upgrade could arise on the back of continued balance sheet strength, earnings stability and the absence of material outflows in AUM and AUA. Conversely, a material reduction in AUM and AUA, and/or weaker than expected earnings could result in negative rating action.

Analytical Contacts

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Related Criteria and Research

Criteria for the GCR Ratings Framework, May 2019
Criteria for Rating Asset Managers, November 2019* <i>appendix to the Criteria for Financial Services Companies, May 2019</i>
GCR Ratings Scale, Symbols & Definitions, May 2019
GCR Country Risk Scores, May 2020
GCR Financial Institutions Sector Risk Score, June 2020
GCR Insurance Sector Risk Score, June 2020

Ratings History

IPSG Konsult Limited

Rating class	Review	Rating scale	Rating class	Outlook	Date
Long Term issuer	Initial	National	BBB _(ZA)	Stable	September 2011
	Last	National	A _(ZA)	Stable	December 2019

Short Term issuer	Initial	National	A2 _(ZA)	n.a	September 2011
	Last	National	A1 _(ZA)	n.a	December 2019

Risk Score Summary

Rating Components & Factors	Risk scores
Operating environment	12.50
Country risk score	7.00
Sector risk score	5.50
Business profile	(2.50)
Competitive position	(2.50)
Management and governance	0.00
Financial profile	3.50
Cash flow and Leverage	3.00
Earnings vs. Risk	(1.00)
Liquidity	1.50
Comparative profile	0.00
Group support	0.00
Peer analysis	0.00
Total Score	13.50

Glossary

Capital	The sum of money that is invested to generate proceeds.
Cash	Funds that can be readily spent or used to meet current obligations.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.



Credit Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.

Salient Points of Accorded Ratings

GCR affirms that a.) no part of the ratings were influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; and c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

The credit rating has been disclosed to PSG Konsult Limited. The rating above was solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the rating.

PSG Konsult Limited participated in the rating process via telephonic management meetings, and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from PSG Konsult Limited and other reliable third parties to accord the credit ratings included:

Audited financial results as at 29th February 2020; and
Other publicly available information.