



GCR upgrades PSG Konsult Ltd. South African Long-term National Scale Rating to A_(za) under the new criteria; Outlook stable

Rating Action

Johannesburg, 3rd December - GCR Ratings ('GCR') has reviewed the ratings of PSG Konsult (PSGK) under the recently released Appendix Criteria for Rating Asset Managers, November 2019.

PSGK's long term South African national scale rating has been upgraded to A_(ZA) from A_{-(ZA)}, while the short-term South African national scale rating has been revised to A1(ZA), from A1- (ZA), due to a change in the long to short term mapping tables. The outlook is stable.

On 18 November 2019, GCR announced that it had released an appendix criteria for asset and wealth management entities - titled, 'Appendix to Criteria for Rating Financial Services Companies: Asset Management Issuer Credit Ratings'. As a result, the ratings were placed "Under Criteria Observation".

Subsequently, GCR has finalised the review under the new methodology. As a result, the ratings have been removed from 'Under Criteria Observation' and the rating revised in line with the new methodology.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook / Watch
PSG Konsult	Issuer Long Term	National	A _(ZA)	Stable Outlook
	Issuer Short Term	National	A1 _(ZA)	n.a

Rating Rationale

The South African National Scale ratings on PSGK are anchored in its operating environment (as a predominantly South Africa based financial services group), it also reflects a modest competitive position, net ungeared balance sheet, good cash flows, moderate earnings and good liquidity.

South Africa based PSG Konsult is a diversified financial services group, offering wealth and asset management services, alongside an insurance business. Headline earnings show good revenue diversification, with Wealth approximately 58% of HEPS, AM at 27% of HEPS and Insurance 15% of HEPS as of FY19. Furthermore, PSGK has achieved good levels of stability over its rating history. Despite the diversification, the scale of the group is moderate. PSGK has an approximately 5% market share in domestic assets under administration (AUA: wealth business), 2% in domestic assets under management (AUM: asset management business) and the insurance businesses approximately a GWP market share of 3%. The competitive position of the group is supported by its strong

distribution network, with 932 advisers spread across the country (and to a lesser extent Namibia), providing the group with its stable retail led franchise. We believe the stability of IFA relationships to be strong, with a good track-record of growth over the past 5 years, due to the back-office and regulatory advantages provided by the rated entity. We also believe the investment performance has been supportive of continuing inflows, although the last 12 months has been poorer than its historically strong performance for the Asset Management business. Management & Governance is a neutral ratings factor.

The leverage and cash flow assessment is a strong positive rating factor for PSGK, due to its net ungeared position. The entity has conservatively managed capital and debt over its rating history, and we believe this trend will continue going forward. PSGK is regulated and recorded a SAM ratio of 1.82x at FY19, which is considered to be strong. Conversely, the earnings profile compares somewhat modestly to international asset management norms, with an EBIT(DA) margin of approximately 20%. Positively, we consider the quality of earnings to be good, due to the small percentage of performance fees in revenues (approximately less than 1% in 2019). We also consider the fact that around 30% of the cost base is discretionary to be advantageous. Furthermore, PSGK doesn't assume much balance sheet risk. Investor concentrations are low, with the top twenty retail investors contributing less than 15% of AUA and AUM. The entity does run a collateralised lending book. However, it is small and the loan to values are very conservative.

Liquidity is considered to be strong. PSGK demonstrates consistent sources of liquidity which cover more than 2x its anticipated uses, due to the good cash flow, strong balance sheet liquidity and limited liability risk. There is also no refinancing or covenant risk.

Despite being part of the wider PSG Group, we have not included group support due to the investment holding status of the parent.

Rating Outlook

The outlook is stable, balancing our expectation that the leverage and liquidity will remain at robust levels, despite the poor operating environment.

Rating Triggers

We could consider an upgrade of PSGK if the entity increases its scale and increases its operating margins, this is likely to be outside the ratings horizon but it could occur over the longer-term. A downgrade is unexpected as it would require a change in the conservative financial policies or a dramatic drop in scale or performance.

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, June 2019
GCR Financial Institutions Sector Risk Score, October 2019

Ratings History

Rating class	Review	Rating scale	Rating class	Outlook	Date
Issuer Long Term	Initial	National	BBB _(ZA)	Stable	
	Last	National	A _{-(ZA)}	Stable	
Issuer Short Term	Initial	National	A2 _{-(ZA)}	n.a	
	Last	National	A1 _{-(ZA)}	n.a	

Risk Score Summary

Risk score	
Operating environment	13.5
Country risk score	7.5
Sector risk score	6.0

Business profile	-2.5
Competitive position	-2.5
Management and governance	0.00
Financial profile	3.5
Capital and Leverage	3.0
Earnings v Risk	-1.0
Liquidity	1.5
Comparative profile	0.00
Group support	0.00
Peer analysis	0.00
Total Score	14.5
National scale rating	A/A1

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.
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Salient Points of Accorded Ratings

GCR affirms that a.) no part of the rating was influenced by any other business activities of the credit rating agency; b.) the rating was based solely on the merits of the rated entity, security or financial instrument being rated; and c.) such rating was 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 face-to-face 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 rating included:

- Audited financial results as at 28th Feb, 2019;
- Unaudited financial results as at 31 Aug, 2019;
- A breakdown of facilities available and related counterparties;
- Industry comparative data.