RESTRUCTURING EXERCISE

Sasfin plans to ring-fence bank to help bypass banking laws

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Sasfin says it will ring-fence its bank in a plan to divide the group into three distinct units so that burdensome banking regulations do not apply to other parts of the business.

It would separate banking, wealth and capital into separate legal entities — largely in place already — each with independent operations and management, executive director, Michael Sassoon said Thursday.

"We see huge scope for growth for each unit," Sassoon said. Separately listing the units was not on the immediate agenda, but could not be ruled out completely, he said.

The restructuring exercise was subject to regulatory approval. Investment managers said the plan made sense and was in line with other banks.

Focused management teams with the right skills were needed to grow Sasfin's businesses, said Samantha Steyn, portfolio manager at Cannon Asset Managers. "[Sasfin] just doesn't have the scale, which means that two large impairments can have a significant effect on the bottom line," Steyn said.

Two significant credit losses contributed to an 18.8% decline in headline earnings for the six months to December 2016. Earnings were also hurt by the write-down in the value of its Efficient Group investment, an increase in compliance costs and profit falls in its business banking and wealth divisions.

Gross loans and advances to customers rose 7.9% to R6.4bn, while the group's credit loss ratio more than doubled to 121 basis points following two material impairments among trade finance clients.

Nonperforming loans doubled to R466m, but have reduced to R349m since December following recoveries. This suggested there could be a slight reversal on the bad debt charge for the full year, said Adrian Cloete, portfolio manager at PSG Wealth.

The group is well capitalised, with a capital adequacy ratio of 18.3%, which is ahead of large commercial banks. "I do think there are prospects for [an earnings] improvement in the second half, but I don't want to promise anything," said group CEO Roland Sassoon.

Earnings volatility was a function of the group having an insufficient spread of operations, in comparison to large, commercial banks, he said.

"Sasfin's results highlight the vulnerability of mid-market financial services businesses in an ailing economy," said Bjorn Zietsman, portfolio manager at CoroCapital. "In the absence of ... strong GDP growth benefiting [small and mid-sized businesses], it is difficult to be optimistic on the impact of the macro environment on the group."

Initiatives, such as the black economic empowerment deal with WIPHOLD, could boost prospects, Zietsman said.

Subject to regulatory approval, Sasfin will sell a 25.1% stake to WIPHOLD. It has also announced the acquisition of Absa's R1.5bn rental finance book and a direct feed for bank customers with Xero Accounting, online accounting software for small businesses.

"We see a lot of opportunity to be a focused bank for business," said Sassoon.

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