PNGX Announcement

14 September 2021

Credit Corporation profit rebounds in 1H21

- NPAT K53m, up 122%
- Core operating profit K49.7m, up 104%
- Earnings per share, 17 toea, up 122.5%
- Net asset backing per share, K2.9, up 34 bps
- Return on equity 10.9%, up 5.56%
- Tier 1 Risk Weighted Capital Ratio, 29%, up from 28%
- Finance segment NPAT K11.3m, increased by 368%
- Property segment core operating profit K5m, down 24.7%
- Listed investment fair value K452.2m up 2.6%

The Credit Corporation Group ("the Group") has seen a positive start to FY21 reflecting a modest improvement in the financial performance from the sharp contraction last year.

However, recent developments throughout the Pacific in relation to the COVID-19 pandemic highlight the uneven transition to recovery and the ongoing risks associated with the pandemic. The Group remains concerned for the second half of 2021 with the impacts of the pandemic across its Pacific points of representation, borders remaining closed, delinquency levels high and the uncertainty as to when borders will reopen to kick-start local economies.
Against this economic backdrop, the Group achieved Core Operating Profit of K49.7m and NPAT of K53m, reflecting a 104% increase and 122% increase respectively, compared to the 1H20 result. The Group also achieved a Return on Equity of 10.9%, compared to 5.3% in 1H20.

Group Chairman Mr. Richard Sinamoi said the Group result was pleasing given the economic conditions.

"The result can be attributed to lower operating costs and higher dividend income from the Group's investments," Mr Sinamoi said.

"Total expenses decreased by 46% to K37.4m compared to 1H20 and this was largely attributed to improvements in loan impairment outcomes", he said

Despite the challenging business environment, the Group retained a resilient balance sheet. The Group maintained a strong liquidity position at K209m with, the loan to deposit ratio relatively stable at 97.6%.

During 1H21, the Group's robust capital position provided the flexibility to return surplus capital to shareholders. This resulted in declared total dividend of 18 toea per share.

The Group's segments

Finance

The Group's Finance segment achieved NPAT of K11.3m, which was a significant improvement on the previous corresponding period's result.

"Group impairment costs reduced by 94% to K2.4m in 1H21 compared to 1H20. The decrease was largely attributed to impairment costs normalising this year, as compared to that experienced at the outset of the COVID-19 pandemic recognized last year," Mr. Sinamoi said.

In 1H21, the Group continued its focus on supporting customers and keeping employees safe.
The Group is proud to have helped so many of its SME finance customers through the pandemic situation so that they have been able to return to full repayments or interest payments as a minimum. The Group recognizes that a number of customers continue to be impacted by COVID-19 related restrictions with uncertain recoveries.

The Group's financial strength is reflected in its level of capital holdings with a Tier 1 capital ratio of 29% and
Leverage Ratio of 24% that is well above regulatory requirements.

As a result, the Group continues to monitor its lending portfolio and reassess its credit quality as the situation evolves.

The Net Interest Margin improved to 12.7% in 1H21, compared to 12.2% in 1H20.

There has been a continued focus on managing Net Interest Margins in light of prevailing macroeconomic headwinds and the Group continues to focus on managing the cost of funds to the business.

Lending across the finance segment was impacted by subdued economic activity due to restrictions placed by the governments and health authorities in the different jurisdictions. This has impacted the ability to grow the loan book.

Delays in key economic projects in PNG have also impacted lending activities, particularly demand for equipment financing.

Property

The Property segment achieved a Core Operating Profit of K5m which was down 24.7% on the previous corresponding period.

This result was due to declining occupancies driven by the movement of multiple tenants from PNG who proceeded to right size and restructure their businesses, predominantly Aid Funded Agencies, related to their own risk analysis of the Covid-19 situation in country. This placed downward pressure on rental rates as some competitors looked to reduce rental rates to buy occupancy. We have not reduced rentals rates in order to maintain our premium factor for our properties.

Average occupancy levels for the property portfolio decreased to 74% during 1H21 compared to 76% in FY20.

At our residential properties, Era Dorina occupancy levels decreased to 46% (52% in FY20) and at Era Matana occupancy decreased to 77% (84% in FY20). The Group will invest in refurbishment of Era Dorina to support future growth in occupancy.

However, the Group's commercial property Credit House, maintained occupancy levels at 100% as at 30 June 2021, and it will remain at this occupancy for FY21 with all tenants now locked in until December 2021.

A new product offering in Serviced Units has been introduced to the market aiming at both long term (1+years) and short term (two to 12 months) occupancy, in order to link into this growing market fueled by and influx of Aid Agencies as PNG begins recovery following the pandemic.

This market is also positioning Era Dorina and Era Matana for the future with projected mineral and gas project expansions in PNG.

To date this new offering has seen positive growth in filling a proportion of the lost market from the departure of COVID 19 impacted Tenants.

Potential exists to target customers seeking to switch tenancies to benefit from service levels provided at Era Dorina and Era Matana properties, and the division is tailoring marketing campaigns to entice these customers.

Investment

The valuation of shares in BSP increased by 2.63% to K452.2m compared to 1H20 and the dividend yield increased by 58bps to 8.5%, mainly due to the increase in dividends received from BSP for 1H21.

Conclusion

Interim CEO Mr Danny Robinson said the Group's solid financial performance amid the current economic environment throughout the Pacific meant it is well placed to respond to the rapidly changing operating environment while continuing to support its customers.

"We are refreshing our strategic priorities to ensure we continue to build on our strong foundations and position us for the future.

"This is refining and refocusing of our priorities will enable the business to focus on the new challenges and opportunities ahead.

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About Credit Corporation (PNG) Ltd:
Credit Corporation (PNG) Limited commenced business in 1978 as a general finance company. It has grown successfully to become recognised as one of Papua New Guinea's most progressive institutions. For more information about Credit Corporation PNG visit: www.creditcorporation.com.pg