# LOOKING BACK: Capitec

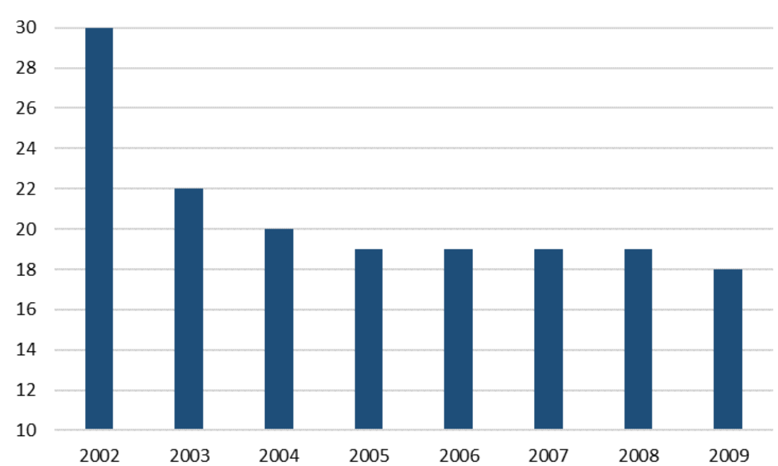
At its recent results announcement at the end of March 2019 Capitec said that it grew customers at the fastest pace in its history, adding 500,00 new customers in January and February alone. It has come a long way since opening its doors in 2001. This quarter, we dive into Capitec's history, from small-time lender, to the largest bank in the country.

Capitec was established in 2001 and listed 12 months later on the JSE in February of 2002. Nine days before its listing, Saambou Bank hit the wall, and a banking crisis ensued for small banks.

By its first-year anniversary as a listed company, the strain was starting to show. In the 2003 Annual results earnings declined by 38%, dividend was cut by 33% to 19.0 cents per share, number of branches declined 16% to 266 and the company now employed 1 180 personnel form 1 267 the year before.

Not many companies would have survived such a shock so shortly after listing, and indeed, the number of registered banks in South Africa dropped from 30 in 2002 to 20 a mere two year later. Today we have 18 registered banks, 12 locally-controlled banks, and 6 foreign-controlled.

Figure 1: Number of Registered Banks – South Africa (2002 – 2009)




Source: Banking Association South Africa

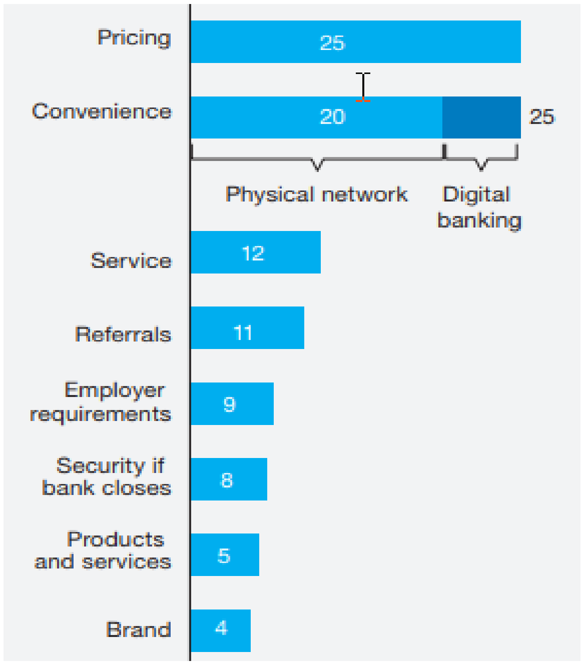
Although the Capitec business model was sound, it did create challenges for them. Importantly, they needed to adjust their ambitions by focussing on granting smaller shorter dated loans (it had ambitions to grow the longer dated loan book) and reduce its dividend pay-out ratio (although it kept to its promised dividend at the first set of results in 2002).

**What has made Capitec so successful?**

Capitec Bank is now the largest bank in South Africa – by far - when considering the number of clients who use it as their main bank, about 9.17 million people. But why?

A recent study by McKinsey & Company unsurprisingly indicates that price convenience and service is the most important reason for choosing a bank.

Figure 2: Consumer Survey – Reasons for Choosing a Bank (% of Clients)




Source: McKinsey & Co.

The Capitec business model has always focussed on simplicity and affordability. What started off as a micro-lender focussing on short dated loans to the lower LSM market, has transformed into a fully-fledged bank, offering transactional banking services to individuals across the income spectrum. The product offering and pricing has remained simple and transparent.

**Leader in Affordability**

In 2005 Capitec reportedly had the lowest cash withdrawal fee of R1.80 at its ATM's, while one of the big four banks were charging a fee of R9.65 for withdrawing R500. But it was not just about fees - in 2005, Capitec was paying an interest rate of 10% on deposits of up to R25 000 - well in excess of what the larger banks were offering at the time. The Solidarity Research Institute found that Capitec has the lowest bank charges of all South African banks in 2010, 2011 and 2012.

While competition has increased significantly since the early days of Capitec's existence, the latest 2018 study by Solidarity still finds Capitec to offer the customer the best overall value in the low-income and middle-income banking markets, with the main differentiator being that Capitec pays significant interest on balances in your main transactional account.

# LOOKING BACK: Capitec (cont.)

**Great Brand**

In 2010 the Credit Suisse Research Institute published a report – 'Great Brands of Tomorrow', in which Capitec came out on top, versus 27 other companies from around the world.

Figure 3: High Potential Brand Stocks

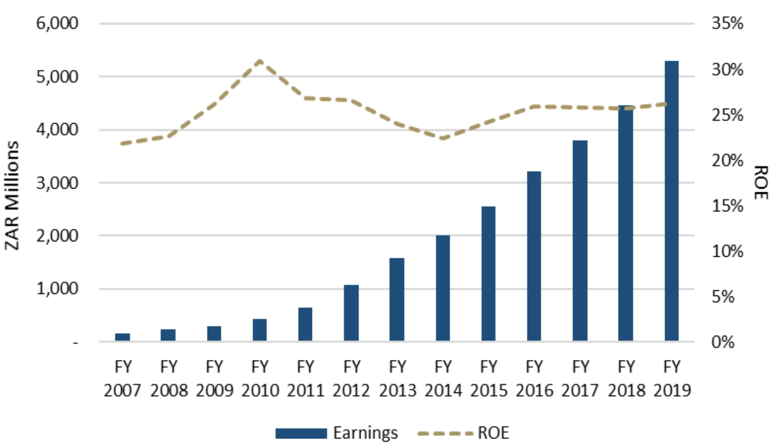

Source: Credit Suisse Research

Internationally, Capitec continues to show the attributes that makes a strong brand - product innovation, connection with customers, service quality, and continued investment in brand, to name a few. Research by Brand Finance into the global banking sector rates Capitec as the 6th strongest brand, up from 11th in 2018.

**Investor Scoreboard**

Capitec has proven to be a high-growth business with returns far in excess of both peers and the broader market. Earnings went from R48m in 2002, to R5.2b estimated for 2019.

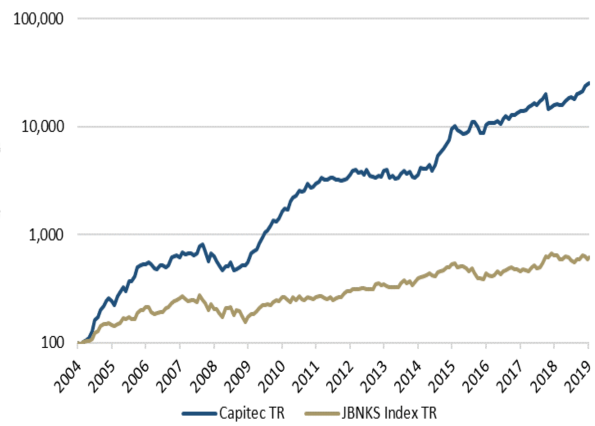
Figure 4: Capitec's Earnings & ROE




Source: Bloomberg

For investors, the ultimate scoreboard is total shareholder return, and on that front, Capitec has done exceptionally well, delivering a total annualised return since listing of 52.9% (vs. the All Share's 13.6% and the JSE Banks Index's 18.0% annualised returns over the same period).

Figure 5: Capitec's total return relative to the JSE Swix & Banks Index since listing (logged)




Source: Bloomberg

Despite critics like Viceroy in 2018, and other sceptics over the years, Capitec has grown from strength to strength. They have built a brand that stacks up against even the best foreign peers and produced unprecedented growth for shareholders. The company has been in the BlueAlpha portfolios for the better part of 4 years and we hope to see it there for many more.