

CREDIT OPINION

20 April 2018

Update

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Real People Investment Holdings Limited

Update to credit analysis

Summary

The Ca/Not Prime global scale issuer ratings (no outlook) of [Real People Investment Holdings Limited](#) (Real People), mapping to Ca.za/NP.za national scale issuer ratings, reflect the material losses incurred by creditors as part of the company's restructuring of its liabilities, its still weak financial position and the significant credit risk senior notes continue to carry.

Following a distressed exchange on 5 December 2017, senior unsecured creditors bore significant losses. Senior unsecured creditors' claims were written-down to approximately 59% of their original aggregate nominal amount. The voluntary debt exchange imposed losses across the company's entire liability structure and helped improve capitalisation (the company reported adjusted equity to assets of 21.6% as of December 2017), reduce the company's debt burden and extend debt maturities.

Real People returned to profitability in the first nine months of fiscal 2018, however, we expect that the company's plan to return to sustainable profitability (following the divestment of its loss-making operations, and the focus to grow the more profitable businesses) still entails material execution risk particularly in light [South Africa's](#) (Baa3 stable) slow-growth economy. The company's main challenge will be to profitably grow its portfolio in line with targets, while containing operating expenses and impairments.

Credit challenges

- » Recent distressed exchange recapitalised the company with material losses for senior creditors
- » Company reported profits following corporate restructuring, but sustainably improving profitability will remain a challenge

Rating outlook

Real People's ratings carry no outlook, reflecting the company's default status.

Factors that could lead to an upgrade

Upward pressure would arise following a track record of improved recurring profitability and internal capital generation, which will in turn indicate that the risk of further losses has abated.

Factors that could lead to a downgrade

Further downward pressure on the rating would require significant additional senior unsecured creditor losses, which we do not currently expect.

Key indicators

Exhibit 1

Real People Investment Holdings Limited (Consolidated Financials) [1]

	12-17 ²	3-17 ²	3-16 ²	3-15 ²	3-14 ²	CAGR/Avg. ³
Total managed assets (ZAR thousand)	2,166,717	2,917,157	4,077,639	3,815,366	4,606,943	-18.2 ⁴
Total managed assets (USD thousand)	175,017	217,556	277,240	314,897	438,010	-21.7 ⁴
Pretax Preprovision profits / Average Managed Assets (%)	8.2	-4.8	16.2	8.1	16.9	8.9 ⁵
Net Income / Average Managed Assets (%)	2.1	-16.9	0.4	-7.9	-6.8	-5.8 ⁵
Secured Debt / Gross Tangible Assets (%)	1.6	34.2	25.8	14.3	14.4	18.1 ⁵
Tangible Common Equity (Finance) / Tangible Managed Assets (%)	16.6	-4.1	12.3	13.3	14.9	10.6 ⁵
Problem Loans / Gross Loans (Finance) (%)	-	35.2	34.2	53.4	38.0	40.2 ⁵

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] IFRS [3] May include rounding differences due to scale of reported amounts [4] Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime [5] Simple average of periods presented for the latest accounting regime.

Source: Moody's Financial Metrics

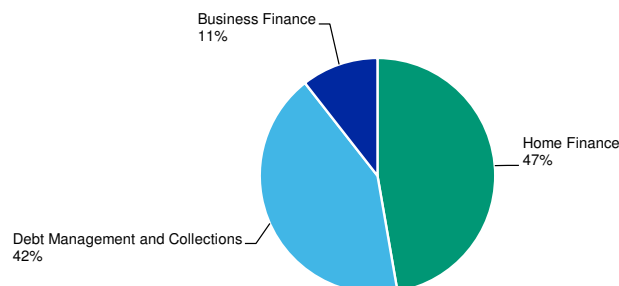
Profile

Real People is a finance company operating in the Republic of South Africa. The company's main areas of business are:

- (1) Home Finance - Consists of purpose-specific unsecured lending in South Africa of home improvement finance through its cooperation with merchants. This segment accounted for 47% of net loans and acquired assets as of December 2017 (see Exhibit 2).
- (2) Debt Management and Collections (DMC) - Consists of the acquisition and servicing of nonperforming unsecured debt portfolios in South Africa, which accounted for 42% of net loans and acquired assets as of December 2017, including outsourced collection services to other credit providers in the banking, retail and cellular phone industries.
- (3) Business Finance - Consists of the now divested business lending in East Africa, which accounted for 11% of net loans and acquired assets as of December 2017.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Exhibit 2

Breakdown of Real People's loans and acquired assets as of December 2017

Source: Real People's unaudited financial results

Recent developments

On 17 May 2017, Real People announced that it had entered into a debt standstill agreement with the majority of its creditors.

On 22 June 2017, the company's Nordic bondholders acceded to the standstill agreement.

On 5 December 2017, Real People completed its debt exchange as part of its corporate restructuring plan.

Detailed credit considerations

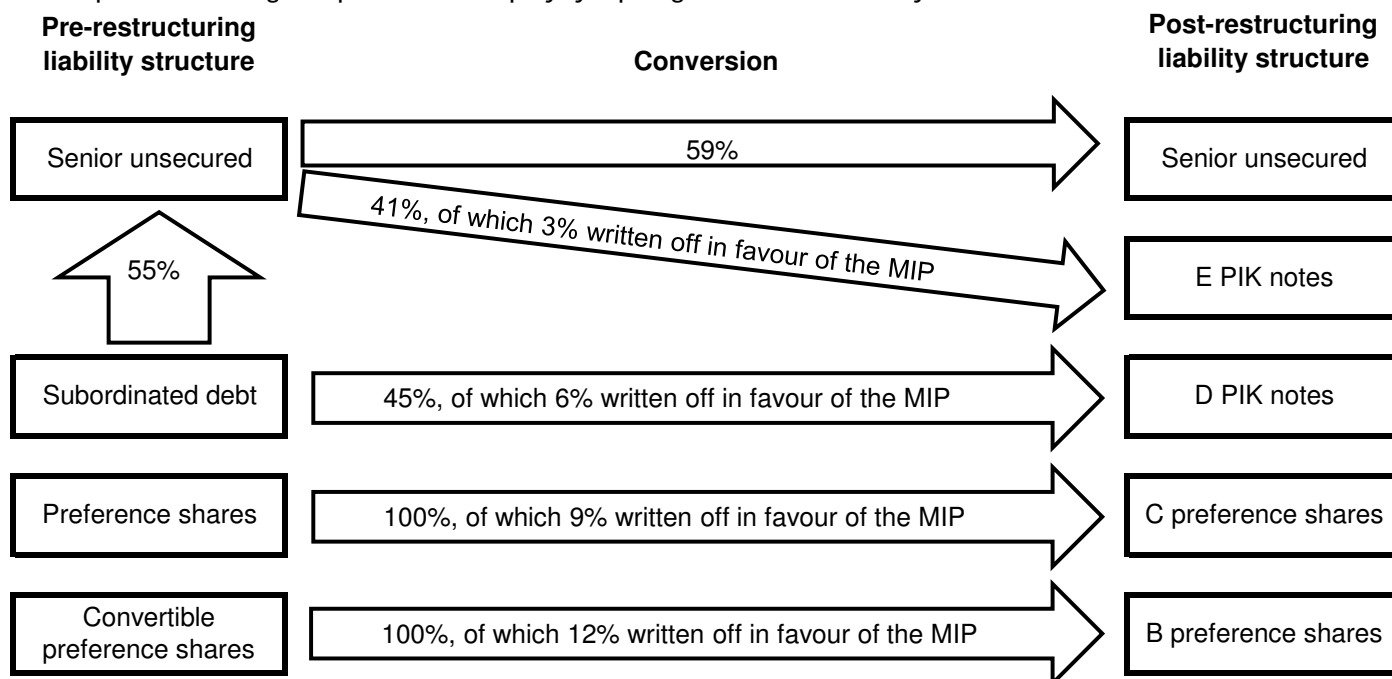
Recent distressed exchange recapitalised the company with material losses for senior creditors

Following a distressed exchange, senior unsecured creditors bore significant losses captured by our Ca issuer rating for Real People. The voluntary debt exchange on 5 December 2017 imposed losses across the company's entire liability structure and helped improve capitalisation (the company reported adjusted equity to assets of 21.6% as of December 2017, up from a negative equity position before the exchange), reduce the company's debt burden and extend debt maturities.

Senior unsecured creditors' claims were written-down to approximately 59% of their original aggregate nominal amount (see Exhibit 3), and the final maturity of their claims was also extended. The remaining 41% of the senior bondholders' outstanding amount was exchanged for South African rand-denominated E Payment-In-Kind Notes (PIK Notes) issued by Real People, with 3% written-off in favour of a management incentive program (MIP), and ordinary shares. See also [Real People's successful debt exchange will support its corporate restructuring plan](#), 11 December 2017.

Exhibit 3

Real People's debt exchange recapitalised the company by imposing losses across its liability structure



MIP = Management incentive program.
 Source: Real People

Subordinated debt was divided, with 45% exchanged for D PIK Notes (of which 6% written off for the MIP) and the remaining 55% converted into senior debt, which was then converted to new senior debt and E PIK Notes as above. We expect bonds converted into E PIK Notes to have limited value, given their subordination to senior creditors and the discretionary nature of the payments on these notes.

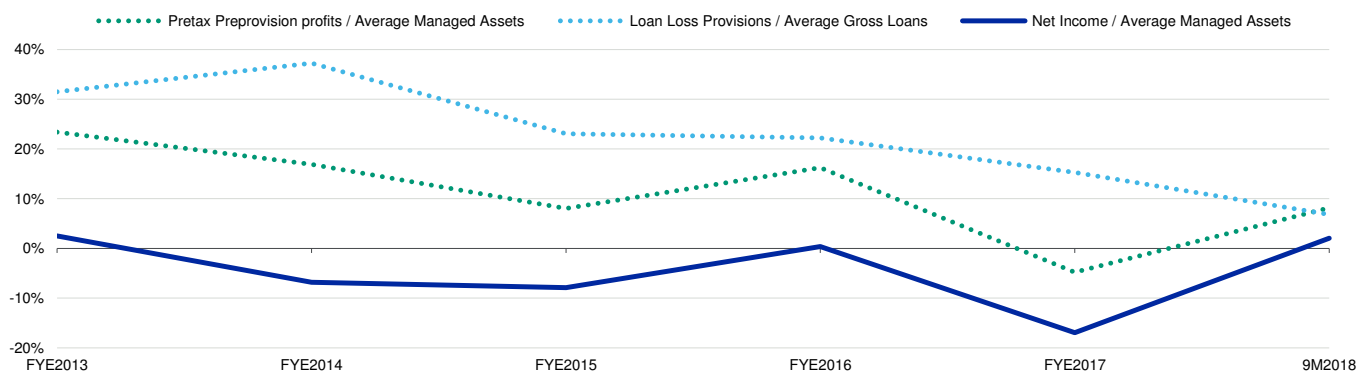
Lenders to the company agreed to a twelve month moratorium on payment to unsecured senior debt with effect from 1 April 2017.

Company reported profits following corporate restructuring, but sustainably improving profitability will remain a challenge

We expect Real People to have returned to profitability for the fiscal year ended March 2018 despite continued losses in the East African Business Finance division, which the company disposed towards the end of its fiscal year. Real People reported a group profit of ZAR40 million for the nine months ended December 2017, after losses of ZAR83 million for the same period a year earlier. However, the company will continue to face significant challenges in sustainably improving its profitability over the coming quarters because we expect its earnings generation capacity to remain weak.

The bottom-line profit in the nine months to December 2017 is primarily attributed to 38% decline in financing costs from the same period last year driven by the debt standstill agreement in place during most of fiscal 2017, a 17% decrease in operating expenses and a 26% reduction in impairment provisions (effect of an early adoption of IFRS 9 from 1 April 2017 with an adjustment of ZAR313 million deducted directly from equity). The net income to average managed assets ratio was therefore 2.1% for the nine months ended December 2017 (see Exhibit 4).

Exhibit 4

Profitability picked up in 9M 2018 following the corporate restructuring, after losses in previous periods

Source: Moody's Financial Metrics

Sustainably improving Real People's profitability still carries material execution risk because uncertainty remains over the company's ability to establish and maintain a resilient and profitable operating model and to contain impairments going forward. One of the company's biggest challenges will be to generate sufficient cash flow internally or access new funding to drive asset origination and, in turn, generate sufficient revenue to cover credit losses, ongoing operating expenses, and debt repayments which will commence on 30 June 2018.

Although the corporate restructuring has reduced the company's borrowings to ZAR1.6 billion in December 2017 from ZAR2.8 billion in March 2017, and while the company will become even leaner following the recent disposal of its unprofitable East African operations, it may face difficulty in accessing capital markets at a reasonable cost in light of its recent distressed exchange. Importantly, its operating model is also susceptible to the low, although improving, economic growth performance of South Africa (we forecast real GDP growth of 1.4% in 2018 and 1.9% in 2019)¹, with South African consumers under pressure from high unemployment and heavy indebtedness, which would further limit opportunities for business growth and raises the potential for further impairments.

Structural considerations

Global Scale Issuer Ratings

The company's Ca/Not Prime global scale issuer ratings capture the credit risk of senior unsecured obligations. The current positioning of the ratings indicates that there is no structural subordination of unsecured debt holders because senior unsecured debt remains in the majority.

National Scale Issuer Ratings

Real People's Ca.za/NP.za national scale issuer ratings are derived from the company's Ca long-term global scale issuer rating and reflect its default credit status and poor relative creditworthiness within the South African credit environment.

Our national scale ratings (NSRs) are intended as relative measures of creditworthiness among debt issues and issuers within a country, enabling market participants to better differentiate relative risks. NSRs differ from our global scale credit ratings in that they are not globally comparable with the full universe of our rated entities, but only with NSRs for other rated debt issues and issuers within the same country. NSRs are designated by a ".nn" country modifier, signifying the relevant country, as in ".za" for South Africa. For further information on our approach to NSRs, please refer to [Mapping National Scale Ratings from Global Scale Ratings](#), published in May 2016.

Source of facts and figures cited in this report

Unless noted otherwise, we have sourced data relating to systemwide trends from the South African Reserve Bank and the National Credit Regulator. Company-specific figures originate from company reports and Moody's Banking Financial Metrics. All figures are based on our own chart of account and may be adjusted for analytical purposes. Please refer to the document [Financial Statement Adjustments in the Analysis of Financial Institutions](#), published on 13 June 2017.

Rating methodology

The principal methodologies used in this rating were Finance Companies, published in December 2016, and Mapping National Scale Ratings from Global Scale Ratings published in May 2016.

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Rating methodology and scorecard factors

Exhibit 5

Real People Investment Holdings Limited.

Rating Factors	Aa/A	Baa	Ba	B	Caa	Historical View	Forward View
Non-Financial Factors						B	B
Factor: Franchise Positioning						B	B
- Market Position and Sustainability				x			
- Operational Diversification				x			
Factor: Risk Positioning						Caa	Caa
- Potential Volatility of Assets/Cashflows					x		
- Governance and Management Quality			x				
- Risk Management					x		
- Key Relationship Concentrations		x					
- Liquidity Management					x		
Factor: Operating Environment [1]						B	B
- Economic Strength			x				
- Institutional Strength			x				
- Susceptibility to Event Risk		x					
Financial Factors						B	Caa
Factor: Profitability						Caa	Caa
- PPI / AMA	6.54%						
- Net Income / AMA					-4.83%		
- Pre-tax Income Coefficient of Variation					-283.12%		
Factor: Liquidity						B	Caa
- 24 Month Coverage Ratio					26.11%		
- Secured Debt / Gross Tangible Assets	1.64%						
Factor: Capital Adequacy						Aa/A	Caa
Capital Bucket: Traditional Finance Company							
- TCE / TMA	16.62%						
Factor: Asset Quality						Caa	Caa
- Problem Loans / Gross Loans					34.85%		
- Problem Loans / (Shareholders Equity + LLR)					99.52%		
Scorecard estimated stand-alone credit assessment:						B3	Caa1
Assigned stand-alone credit profile:							Ca

[1] Capped at B; The operating environment score will not exceed the weighted average of scores assigned to a firm's other non-financial factors.

Source: Moody's Investors Service

Ratings

Exhibit 6

Category	Moody's Rating
REAL PEOPLE INVESTMENT HOLDINGS LIMITED	
Issuer Rating -Dom Curr	Ca
NSR Issuer Rating	Ca.za
ST Issuer Rating -Dom Curr	NP
NSR ST Issuer Rating	NP.za

Source: Moody's Investors Service

Endnotes

1 See [Government of South Africa – Baa3 Stable: Update following rating confirmation and change in outlook to stable](#), 23 March 2018.

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REPORT NUMBER 1120500