APERTURE

INSIGHTFUL AND RELEVANT RESEARCH UPDATES

Capitec FY 2025 Results

Share Price	R3327.99
Fair Value Range	R2535.34 - R2998.79
Date	24 April 2025

RESULTS SUMMARY

Capitec reported robust full-year 2025 results, with headline earnings per share (HEPS) up by 30% and the full-year dividend rising by 34%. Personal Banking led the way, with a 27% increase in headline earnings, driven by lower credit impairments and higher income from value-added services. Business Banking reported a 13% increase in headline earnings, following the integration of Capitec Pay into the division.

The bank's return on equity (ROE) improved from 26% to 29%, supported by growth in transactional and value-added services (VAS) income, operating efficiencies and a lower credit loss ratio. Net interest income after credit impairments rose significantly by 54% to R11.9 billion. This was partially offset by a 30% rise in operating expenses, largely due to the consolidation of AvaFin. In terms of headline earnings contribution by segment, Personal Banking accounted for 45%, Strategic Initiatives (including value-added services and Capitec Connect) contributed 23%, Insurance made up 25%, Business Banking 5%, and AvaFin 2%.

Looking ahead, Capitec aims to accelerate digital banking adoption and integrate its personal and business banking platforms for a seamless client experience. Management remain optimistic about future growth prospects, particularly in the business banking, life insurance and AvaFin segments.

OUR LONG-TERM INVESTMENT VIEW

- Still regarded as a young bank in the South African context, in over 20 years Capitec has amassed the largest retail client base in the country, growing to 24 million clients. Over the period the bank has built a reputation for affordability, transparency, and trust, which still resonates with its clients and remains relevant across the South African population today. A large part of the bank's growth can be attributed to its leading digital strategy, underpinned by its universal banking mobile application.
- Increased usage of the digital banking application has driven efficiencies in terms of both servicing and selling to clients. This has allowed the bank to report highly competitive cost-to-income ratios as well as successfully diversify and grow into new product categories such as life insurance and mobile network services. Growth into these product categories has allowed the bank to meaningfully grow non-interest revenue, which is now larger than the income derived from savings and lending, adding diversity and stability to the bank's earnings profile.
- Our long-term investment case is predicated on Capitec continuing to leverage their digital platform to drive penetration of existing and new products into their large client base as well as to new clients. We believe Capitec's digital-led offering has the potential to capture meaningful market share, both in South Africa and internationally, and drive earnings growth into the future.

UNPACKING THE FY 2025 RESULTS

High level numbers

- **Net interest income** (NII) and **non-interest revenue** (NIR) rose 23% and 22%, respectively to R20.2bn and R23.9bn. Growth in NII was driven by returns on investments (+18%) and return on lending (+17%), which exceeded growth in interest expense (+8%). Growth in value-added services (VAS), Capitec Connect, funeral plans and transaction and commission income drove growth in NIR.
- **Credit impairments** declined 5%, with the group's annualised credit loss ratio improving from 8.7% in FY24 to 7.5% in FY25, indicating the group has passed the peak of credit losses experienced in FY24.
- **Operating expenses** increased 30% (including AvaFin) and drove a deterioration in the cost to income ratio from 39% to 41%. Overall operating profit before tax grew 32% (to R17.7bn).
- **AvaFin, Capitec's 98%-owned fintech loan provider,** operates online consumer lending businesses in Poland, Latvia, Czechia, Spain and Mexico. Loans advanced are predominantly short term and unsecured. Capitec acquired a controlling interest in AvaFin on 1 May 2024 prompting consolidation into the Capitec group.
- AvaFin contributed R196m to headline earnings from 1 May 2024 to February 2025, and R1.2bn to net lending and investment income after credit impairments.
- **Business banking** NII grew 26% to R1.9bn driven by growth in the gross loan book (+22%) which also drove a 14% increase in credit impairment charges (to R368m). Transaction volume growth (excluding Capitec Pay) increased by 37% reflecting the 11% increase in active clients due to the reduction in banking fees to align with the cost of personal banking.

- The bank maintained a strong financial position, with a **capital adequacy ratio** of 38%. At 29% (FY 2024: 26%), Capitec's **return on equity** (ROE) remained above peers. Funding of near-term growth opportunities, including AvaFin, is expected to return the ROE, to management's revised long-term target, of 28%.
- **Headline earnings** and the **final dividend** per share were up 30% and 32%, respectively to 11912 and 4425 cents.

Personal Banking outperforms

- **Personal Banking** grew headline earnings by 27% from R4.9bn to R6.2bn. NII was up 9% to R16.2bn driven by growth in interest income on investments (+18%) which offset a 6% increase in interest expenses. Interest earned on the lending portfolio increased modestly by 3% reflecting stricter credit granting criteria in HY25. The subsequent easing of these criteria in the second half of the year, following the national election outcome, contributed to a 7% growth in **gross loans and advances**, compared to the 2% increase in FY24.
- The significant improvement in the **credit loss ratio** from 10.1% to 8.1% indicates the recovery of the credit book, following the tightening of credit lending criteria over the past two financial years and peak credit losses experienced last year. Headline earnings were supported by the 16% decline in **net credit impairment charges** (to R7.0bn).
- **Active clients** increased by 9% to 24 million while fully banked clients increased by 13% to 8.8 million. This supported a 17% increase in transaction volumes, which further drove a 17% increase in **net transaction and commission income.**
- **Value-added services (VAS)** net transaction income increased by 56% to R4.2bn, driven by growth in cash remittances (+50%), bill payments (+51%) and voucher and lottery ticket purchases (+>100%). Capitec Connect grew active SIM card connections by 74% to 1.6 million.
- The **net Insurance result** increased 19% to R3.8bn, while headline earnings increased 13% to R3.5bn.
- As a result of developing an enterprise payment system to support card, online and bulk payments, Capitec Pay has been integrated into the Business Banking division. After accounting for the transfer of Capitec Pay in the current and prior year, headline earnings increased by 13% to R727m (FY24: R641m) and net transaction and commission income increased 19% to R1.3bn.

Looking ahead

Capitec announced that Group CEO and founding member, Gerrie Fourie, will retire in July 2025. He will be succeeded by Graham Lee, a 21-year Capitec veteran with leadership experience across credit, technology, data and retail operations. While Gerrie Fourie's departure marks the end of an era, we expect a seamless transition given Graham Lee's deep institutional knowledge and financial expertise. Our investment case, predicated on a superior growth outlook, remains firmly intact.

Management remain optimistic about future growth, with plans to deepen market penetration using data-driven insights. Key focus areas for FY 2026 include expanding Personal and Business banking offerings (including the informal sector), enhancing the digital payment ecosystem, and scaling the Capitec Life offering. Over the longer term, AvaFin presents offshore growth potential, aligning closely with Capitec's client-centric retail business philosophy. However, AvaFin is not expected to meaningfully impact earnings in the short term.

The Bottom Line

With a proven leadership team, scalable operations and a strong digital foundation, Capitec is well positioned to continue delivering earnings growth ahead of peers. We therefore believe it remains deserving of a premium in the market. The share currently trades above our fair value range.

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