Capitec expects loan losses to be within target in 2025

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Capitec Bank said on Tuesday, 23 April 2024 its loan losses in retail banking will likely shrink to within its target range in 2025, as its full-year profit rose by 16%, sending its share up 7.43%.

Source: Reuters.

Capitec Bank is one of the fastest-growing South African lenders, targeting low-income earners who were largely ignored by the country's bigger, established banks.

But this exposure has meant higher impairments, with its customers under pressure from 10 successive interest-rate hikes and higher food inflation.

The lender, South Africa's biggest retail bank by customer numbers, has seen a slower migration of retail credit into under-performing loans from performing loans in the second half of its 2024 year ended Thursday, 29 February 2024, chief executive officer, Gerrie Fourie told investors.

Client cash-flow strain, however, has improved over the last six months, with customer insufficient fund transactions coming down, he added.

But estimated credit loss increased in the full-year period, and as a result, the credit loss ratio - a measure of bad loans as a percentage of total loans - in retail banking increased to 101 basis points (bps) from 80bps in 2023.

"The credit loss ratio is expected to return to through-the-cycle target of 8.5% (or 85 bps) by February 2025," Fourie said.

The company, with 22 million retail clients, said overall credit-impairment charges rose by 38% to R8.7bn ($453.21m). At group level, its credit loss ratio rose to 87bps from 70bps.

Capitec said it continued to tighten its credit-granting criteria.

The group's headline earnings per share - the main profit measure in South Africa - rose to 9,171 cents as its net transaction and commission income grew by 29% to R14.8bn.

After terminating its funeral product co-operation arrangement with insurer Sanlam, Capitec said it will start adding life cover as it continues building its insurance business.