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ASX ANNOUNCEMENT

Latitude releases its FY22 results, with strong second-half momentum reflected in volume and receivables growth

Latitude Group Holdings Limited (ASX: LFS) is pleased to announce its Full Year results to 31 December 2022.

FY22 Financial & Operating Metrics

- Statutory NPAT of $57.9 million from continuing operations. Cash NPAT of $153.5 million, down 23% on the prior corresponding period (PCP)[1].
- Volumes $7.95 billion up 8%, with growing momentum reflected in 2H22 volumes of $4.24 billion up 15% on 2H21
- Gross receivables $6.5 billion up 2% and up 3% half-on-half in 2H22, recording the first half-on-half growth in five halves, as elevated repayment rates slowly start to normalise (2H22 repayment rates at 101%, down 333bps on 2H21)
- Net charge-offs of 2.35% of average gross receivables up 2bps but remain well below long-term levels
- Cash operating expenses of $332 million down 9%, with 2H22 cash operating expenses of $157 million down 18% on 2H21
- Strong Balance Sheet maintained: Surplus TER of 8.5% ahead of 6-7% target range; prudent provisioning with loss coverage at 1.6x net charge offs; $1.3 billion of funding headroom providing capacity over next 12 months; funding mitigation actions in place protecting high margins (2H22 NIM 10.23%)
- Risk adjusted income yield of 8.98%, down 112bps due to rapidly rising funding costs, which increased by $54.3 million in FY22 ($41.2 million increase in 2H22), initially outpacing price changes
- 2H22 dividend of 4 cents per share fully franked adjusted for growth stance, taking the full year dividend to 11.85 cents per share fully franked, with dividend reinvestment plan

FY22 Operational Highlights

- Pay volumes of $6.25 billion were up 7% as credit card spending rebounded. While sales finance volumes of $4 billion were flat for the year, in 2H22 they grew 9% sequentially as pandemic-related trends of increased cash purchases and lower store traffic, along with low interest rates, began to reverse

- The 28° Global Platinum Mastercard® continues to benefit from the strong resumption of international travel, with volumes of $1.8 billion up 45% and on track to return to pre-covid levels

- Money volumes of $1.7 billion, up 12%, remained strong, with Australia up 14% and driving 90% of the annual growth

- The integration of the consumer-friendly Symple Loans technology platform proceeded to plan, with the front book fully integrated and allowing the introduction of digital variable rate products. Integration of the AU/NZ personal and auto loan back book is expected to be completed by the second quarter of 2023

- Major instalments partners JB HI-FI and The Good Guys re-contracted for four years, emphasising the value of long-term relationships during a period of economic uncertainty. New merchants signed in 2022 included Zenith Payments, Smart Energy and PB Tech (NZ), with David Jones strategic partnership signed early 2023

[1] Results relate to the full year ended 31 December 2022 unless otherwise stated, with all comparisons against the "prior corresponding period", which relates to the full year ended 31 December 2021

- Further established our small and big-ticket instalments operations in Singapore and entered Malaysia, growing to more than 500 merchants and more than 50,000 customers across the two markets while also supporting the presence of existing partner Harvey Norman in the region

- Moved quickly at the start of the rate increase cycle to increase pricing. While the price changes are lagging the rapid increase to the cost of funds, income yields rose 0.24% in 2H22 and will continue to normalise in FY23

- Successfully refinanced the NZ$864 million New Zealand Sales Finance and Credit Cards Trust warehouse facility, the $801 million Australian Sales Finance and Credit Cards Trust warehouse facility, the $184 million Australia Personal Loans Trust No. 2 (previously Symple Warehouse Trust), the NZ$610 million New Zealand Personal loans trust, the $1.036 billion Australian Personal Loans Trust warehouse facility, and the $926 million Auto loans trust was extended. All were completed ahead of their maturity dates, creating funding certainty in line with our conservative management strategy

Managing Director and CEO Ahmed Fahour said: “While the Cash NPAT result of $153.5 million is reflective of a challenging market in 2022, with the continued impact of the pandemic, high inflation and added funding costs, we are encouraged by the positive momentum we have seen in the second half of the year.

“Our Money business continues to perform strongly, particularly in Australia, as we introduce new variable rate products and a better customer experience through the successful integration of the Symple Loans technology.

“Credit card spending is also returning, particularly on the 28° Global Platinum Mastercard with the recovery in international travel, and interest free instalments volumes growing significantly in the second half of the year with the reduction in cash purchases.

“The volume momentum across Pay and Money has started to flow through to receivables as elevated repayment rates start to moderate. Delinquencies remain low and we are yet to see the full benefits of the action we took to reprice our products when interest rates began to increase.

“With our strong underlying balance sheet, cost discipline and work we have done to modernise our operations, we are in a strong competitive position as we look for growth opportunities that we believe will emerge in this market.

“We also continue to simplify and focus our business around our strengths in interest free instalments and personal lending, which is reflected in our announcement in 2022 of the sale of Hallmark insurance. While BNPL has achieved its aim of attracting more than half a million customers to Latitude, it is an immaterial part of our receivables (circa 0.3%). Given this, and as a consequence of the uncertainty surrounding the future regulatory environment, Latitude is reviewing this service offering, with a decision due shortly.

“Our 2H22 dividend of 4 cents per share, fully franked, following a 1H22 dividend of 7.85 cents per share fully franked, reflects our renewed growth posture, and at a 69% pay out is consistent with board policy.”

Outlook

While unemployment remains relatively low, Latitude expects the momentum in volumes to continue in 2023, although receivables growth may continue to lag with elevated repayment rates taking longer than expected to normalise.

Latitude’s instalments business may continue to benefit as the higher interest rates add to the attractiveness of its ‘interest free’ proposition, households’ cash reserves diminish and with the post-pandemic travel recovery.

Product re-pricing and other implemented measures will further offset the impact on margins of increased funding costs associated with interest rate rises in Australia and New Zealand, while other benefits will flow from the full-year impact of cost reductions and productivity increases, including through the full integration of Symple Loans.

Latitude Managing Director and CEO Ahmed Fahour and CFO Paul Varro will host a briefing on the Full Year 2022 results at 10.30am today (AEDT):

Date: 17 February 2023
Time: 10.30am (AEDT)
Webcast: Participants can register for the webcast here: https://webcast.openbriefing.com/lfs-fyr-170223/
Conference call pre-registration link: https://s1.c-conf.com/diamondpass/10027931-hdyte5d.html

Authorised for release to the ASX by the Board.

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