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Land Bank: The more things change…
Author: Olga Constantatos, Head of Credit & Craig Ivy, Investment Analyst @ Futuregrowth
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There has been precious little movement on the Land Bank's liability solution since our last update (1 April 2021). Nevertheless, it is an opportune time to share recent events, update the status of the proposal, and to report on the recent unaudited draft (and highly summarised) financial results for the Land Bank that were released on 2 June 2021.

Liability solution progress (or not…)
In March 2021 we noted that negotiations on version 3 of the Liability Solution (v3) were continuing. Nearly three months later and most of the requisite details are still up in the air.

Discussions with Land Bank, its shareholder and advisors in April 2021 initially indicated that some improvements to the v3 proposals were under consideration by Land Bank. To date noteholders have been provided with little detail about the nature, quantum, timing and possible conditionality of these enhancements.

Noteholders are understandably concerned about the time it is taking to resolve the Land Bank Event of Default – Land Bank first defaulted in April 2020 and here we are, some 16 months later, and not much closer to finalising the matter.

Negotiations are at a sensitive stage at the moment and we hope to update you soon with further information.

Recent events

1. Proposed change to the Land Bank Act
Land Bank has a unique corporate status. It is incorporated under the Land and Agricultural Development Bank Act No.15 of 2002 (The Land Bank Act) and as such, the provisions of the Companies Act do not apply. The Land Bank is also not a bank in terms of the Banks Act. One of the implications of this unique legal status is that business rescue and curatorship (the usual legal mechanisms used to protect creditors when a company or bank is in financial distress) are not available legal protections.

The Land Bank Act currently refers to judicial management (a concept applicable to our old Companies Act) and so is an outdated reference. In order to address this, Land Bank is intending to update the Land Bank Act to cater for the provisions of business rescue that are contained in the current Companies Act. They have, however, left a big-loophole in their proposals. Under the current Companies Act, a company can be placed in business rescue by a Court on an application of any "affected person" - a group that might include creditors, shareholder/s, a representative trade union and employees. In National Treasuries proposal, they have given only the Land Bank Board and the Minister the ability to place the Land Bank in business rescue.

If business rescues and compromises may be appropriate in principle for Land Bank, we do not understand why creditors and other "affected persons" should be precluded from making an application to the Court for business rescue as is currently the process in the Companies Act. We have addressed this question to Land Bank and its advisors, and await a response.

2. Corporate Plan deviation
We have been advised that Land Bank is unable to finalise, and the shareholder unable to approve, the Corporate Plan while the Liability Solution remains unresolved. While we have been provided financial models for the Corporate and Commercial (C&C) and the Development and Transformation (D&T)

books, these are based on v3 which have some shortcomings and will need updating once (if) the final version of the Liability Solution is agreed.

3. Update on the financial results

On 2 June 2021, Land Bank released a preliminary unaudited snapshot of their financial results for the year ended 31 March 2021 (FY2021), with full audited results expected to be released in September 2021.

Although light on detail, key information provided shows net interest income declining by 55% with continued margin pressure due to:

- the repo rate decline;
- the decline in loan and advances through attrition of good customers seeking funding elsewhere; and
- limited disbursements.

For the 12 months ended 31 March 2021, operating expenses increased to R592m (R425m for the 9 months ended December 2020). Comparing the 2021 costs to the prior year ended 31 March 2020, Land Bank has recorded a year-on-year decline in operating costs of 17%. Land Bank's preliminary results for FY2021 is indicating an operating loss of approximately R970m an improvement from the R2.8bn loss reported in the financial year ended 31 March 2020.

Gross loans and advances declined by 19% in March 2020 from March 2020 levels as some customers have migrated away from the Land Bank and the Land Bank has continued curtailing disbursements to other clients. Provisioning and impairments increased materially in March 2021 because of the loan portfolio from SLA[1] partners (which has a higher level of NPLs[2]) and which is being insourced and managed by Land Bank. The NPL ratio increased to 26.6% in March 2021 – an increase on the prior year ended March 2020 when NPLs were recorded at 18.1%. The increased NPLs over the last year have arisen largely because of the insourcing of the SLA book and the declining gross loan book. Following the insourcing of some of the SLA books, Land Bank now directly manages 60% of the total loan book. It remains to be seen whether further NPLs and provisions will be required once more of the book is brought in-house.

The funding liabilities declined to R35.6bn at March 2021 (December 2020: R40.6bn) due to the 12% capital repayment that was made to all funders in February 2021. Consequently, cash balances declined to R5.6bn as at 31 March 2021 (December 2020: R9.3bn).

The ongoing deterioration of the loan book, as evidenced by the higher NPLs at c.27%, continues to be a cause for concern.

Land Bank presented these summarised and unaudited financial results to Parliament's Select Committee on Finance (watch it here).

Published on www.futuregrowth.co.za/newsroom.

[1] Service Level Agreement
[2] Non-performing loan