Blue implements positive changes during challenging times

In adhering to the Listing Requirements of the Johannesburg Securities Exchange (JSE), pan African micro-financier Blue Financial Services, informed shareholders of the possibility that company earnings are likely to vary by more than 20% compared to the previous reporting period.

The interim results released on 31 August 2009 reflected a loss for the six month period of R162.3 million. Blue’s CEO, Dave van Niekerk, attributes this loss to the difficult trading conditions which have persisted and reduced revenue levels due to the lack of liquidity available to meet required volumes.

Van Niekerk says, “Headline earnings per share are expected to be more than 20% lower than the basic earnings per share and headline earnings per share of 15.92 cents and 12.73 cents respectively for the previous comparable period.” Apart from being in a closed period, the company is also currently involved in negotiations that could have an impact on its share price, and is therefore not able to divulge more information on its performance at this stage.

However, Blue attributes the decline in the Company’s results to four key elements:

1. Restricted levels of funding available in the market emanating from the global economic downturn have limited the Company’s ability to grow its loan book.
2. Operating costs are disproportionately high when compared to revenue as a result of lower levels of available funding.
4. Weakening of the local African market currencies against the Rand.

“In response to the current situation, Blue has taken positive and strategic actions to improve its performance and restore the Groups profitability in the medium-term,” continues Van Niekerk.

The micro-financier has implemented an aggressive cost cutting process to reduce the current cost base by a minimum of R100 million by February 2011. This initiative is well on track and Blue expects to further reduce costs as the year continues.

Operational branches in South Africa were dramatically reduced from 180 to 143, in line with targets to align operations to its current available funding base.
Negotiations with funders will continue in order to secure new funding lines and improve the efficiencies of existing funding. Rothschild has been appointed to advise the Group on its strategy to increase liquidity in the short term and other corporate initiatives.

The Group also improved its business sophistication, which included the strengthening of its treasury management and business optimisation. In this regard, Wip Treasury was appointed as an outsourced service provider to support the appointment of an in-house treasury manager. This is expected to reduce the impact of foreign exchange exposures on the Group.

Van Niekerk remains optimistic despite the financial challenges facing the Group. He says, “In addition to the operational initiatives, Blue also embarked on a drive to improve its corporate governance structures and has already realised significant successes in the execution of this strategy.”

The Board recently took a significant step forward in further promoting the independence of its board by appointing Sipho Twala as its independent non-executive chairperson. This step followed soon after appointing Corporate Statutory Services as the Group company secretary with the previous incumbent taking over the portfolio of Group Compliance Officer for subsidiaries outside of South Africa.

In addition, the responsibility and status of Blue’s risk committee has been elevated to a committee of the board. A non-executive director has also been appointed and a more formal charter has been issued to the risk committee.

Van Niekerk concludes, “I am confident that Blue will continue to maintain a strong position in the micro-finance sector and recover steadily as the year progresses. Our strong management team understands that our recovery will require some patience as we work diligently to reduce costs and restore profitability.

Ends