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CREDIT RATING ANNOUNCEMENT

GCR affirms PSG Konsult Limited's rating of A_{-(ZA)}; Outlook Stable.

Johannesburg, 23 July 2018 -- Global Credit Ratings has today affirmed the national scale Issuer ratings assigned to PSG Konsult Limited of A_{-(ZA)} and A1_{-(ZA)} in the long term and short term respectively; with the outlook accorded as Stable.

SUMMARY RATING RATIONALE

Global Credit Ratings ("GCR") has accorded the above credit ratings to PSG Konsult Limited ("PSGK") based on the following key criteria:

PSGK's ratings reflect its established franchise in wealth management, complemented by its small but growing asset management and insurance divisions. The synergistic nature of the divisions creates a solid platform for cross-selling opportunities, leveraging off its large and growing advisor distribution network that has allowed for good customer loyalty to be maintained over the years.

The group reflects a low risk product profile, with earnings capacity underpinned by a predominantly recurring fee-based model, which lends stability to probability. Accordingly, new client inflows year-on-year has seen total assets under management ("AUM") double to R200bn over the 5-year review period, propelling consistent earnings growth. However, GCR does note that AUM is inherently susceptible to client and market sentiment, particularly in view of the high earnings concentration to the Wealth and Asset Management divisions.

Recurring headline earnings increased by 16% in FY18, with CAGR registering a strong 23% since FY14. PSGK is expected to continue to deliver strong and consistent earnings even under less favourable market conditions as historically demonstrated. Increasing scale and further digitalisation to aid with growing compliance requirements, should enable sustained cost management, as these appear to be mainly non-variable.

PSGK's financial risk profile benefits from limited capital needs, despite insurance risk, and minimal debt on its standalone balance sheet. GCR takes into consideration adjusted gearing (includes guarantees), with debt to operating income reported at a very conservative 12%. PSGK's net interest coverage ratio is in excess of 30x, whilst discretionary cash flow cover of adjusted debt was also strong at well over 100%. The group is highly cash generative, which has afforded meaningful financial flexibility to pursue several acquisitions with internal resources. This combined with entrance into the debt capital markets further enhance the liquidity buffer.

Upward rating movement over the medium to long term could be driven by significantly improved market share gains and diversification of revenue sources. Challenges in net assets inflows, inability to manage a higher cost base and/or any regulatory developments that could lead to a structural deterioration in the group's profitability, could pressurise the ratings. The ratings are also sensitive to a material increase in the group's risk appetite.

NATIONAL SCALE RATINGS HISTORY

Initial rating (September 2011)

Long term: BBB_(ZA)

Short term: A2_(ZA)

Outlook: Stable

Last rating (July 2017)

Long term: A_{-(ZA)}

Short Term: A1_{-(ZA)}

Outlook: Stable

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APPLICABLE METHODOLOGIES AND RELATED RESEARCH

Global Master Criteria for Rating Corporate Entities, updated February 2018

PSGK Issuer rating reports, 2011-17

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GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S CORPORATE GLOSSARY

Balance Sheet	Also known as Statement of Financial Position. A statement of a company's assets and liabilities provided for the benefit of shareholders and regulators. It gives a snapshot at a specific point in time of the assets the company holds and how they have been financed.
Capital	The sum of money that is invested to generate proceeds.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Credit Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Diversification	Spreading risk by constructing a portfolio that contains different investments, whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Gearing	With regard to corporate analysis, gearing (or leverage) refers to the extent to which a company is funded by debt and can be calculated by dividing its debt by shareholders' funds or by EBITDA.
Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.
Interest Cover	Interest cover is a measure of a company's interest payments relative to its profits. It is calculated by dividing a company's operating profit by its interest payments for a given period.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Long-Term Rating	A long term rating reflects an issuer's ability to meet its financial obligations over the following three to five year period, including interest payments and debt redemptions. This encompasses an evaluation of the organisation's current financial position, as well as how the position may change in the future with regard to meeting longer term financial obligations.
Risk	The possibility that an investment or venture will make a loss or not make the returns expected. There are many different types of risk including basis risk, country risk, credit risk, currency risk, economic risk, inflation risk, liquidity risk, market or systemic risk, political risk, settlement risk and translation risk.
Short-Term Rating	A short term rating is an opinion of an issuer's ability to meet all financial obligations over the upcoming 12 month period, including interest payments and debt redemptions.



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SALIENT FEATURES OF ACCORDED RATINGS

GCR affirms that a.) no part of the rating was influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the ratings is for a maximum of 12 months, or earlier as indicated by the applicable credit rating document.

PSG Konsult Limited participated in the rating process via face-to-face management meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The credit ratings have been disclosed to PSG Konsult Limited with no contestation of the rating.

The information received from PSG Konsult Limited and other reliable third parties to accord the credit ratings included:

- The 2018 audited annual financial statements (plus four prior years of comparative audited numbers)
- Investor presentations

The ratings above were solicited by, or on behalf of, the rated client, and therefore, GCR has been compensated for the provision of the ratings.

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