Credit Ratings & Research

General Finance Limited

NZBN: 9429038072994

Credit Rating Synopsis

Date: 28 February 2022

Prepared for: General Finance Limited

Report prepared by: Equifax Australasia Credit Ratings Pty Ltd ("Equifax")

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Currency used in this report: This report is presented in New Zealand Dollars unless otherwise noted.

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1. Executive Summary

General Finance Limited ("GF", "the Company")

GF is a Non-Bank Deposit Taking (NBDT) organisation that is licenced by the Reserve Bank of New Zealand (the RBNZ) and domiciled in New Zealand. The Company offers secured loans and accepts customer deposits.

Equifax Credit Ratings Australasia Pty Ltd ('Equifax') has affirmed GF's credit rating of 'BB-' at Sep21, which is a near-prime classification with a low to moderate level of risk. The outlook for the rating is 'Stable'.

Overall, GF's credit rating benefits from its market position as a specialised bridging loans provider, its growing scale and improving earnings, robust asset quality metrics – mainly conservative Loan to Value Ratios (LVRs), sound capital and funding profile, the expected benefit to its ability to attract deposits by recent proposed regulatory reforms. The rating is constrained by broader business model risks - which include a moderate degree of concentration risks, exposure to higher-risk borrowers and market risk factors, evolving risks from the current macroeconomic environment, as well as operating risks associated with a strong growth trajectory.

Strengths

- GF is a specialist bridging loans provider catering to a market underserved by many industry competitors. Supported by continued loan book growth (Sep21: $62.8m, Mar21: $53.8m, Mar20: $34.9m) and the rising interest rate environment – enabling GF to maintain a higher yield on loans, the Company's NIM's have increased to 2.29% (FY21: 1.64%) for 1HFY22, with an improvement in overall earnings also complemented by a decrease in annualised non-interest expense.

- GF's asset quality and low impaired loan metrics are reflective of its measured approach to lending. The Company has maintained a conservative weighted average loan book LVR at ~55%, which in our view, affords it ample capacity to absorb a decline in collateral value in a market downturn. Furthermore, a significant portion of the loan book is collateralised by general use residential properties, which reduces the risk of loss upon a credit event occurrence as this asset class is prone to a lower degree of liquidity and market price haircut than some others.

- A sound capital ratio of 15.7% at Dec21 (Sep21: 16.1%, Mar21: 16.4%) enables GF to maintain adequate headroom above the regulatory minimum capital ratio threshold (8.0%). The Company's ability to maintain a sound capital ratio, in the presence of steady loan book growth, has been supported by the full retention of profits, together with ~$0.6m of capital raised in the 9-months to Dec21. This, together with additional capital infusion planned during the next 12-18 months, is considered adequate to support the anticipated loan book growth in the near-term.

- GF's demonstrated capacity to attract deposits to aid its asset growth supports its funding profile. Additionally, the Company's liquidity profile is supported by a positive short-term asset liability duration gap as it uses longer-duration deposits to underwrite shorter-duration loans. The Company's capacity to withstand any pressure on liquidity is further supported by its 20.1% liquidity ratio at Sep21.

- RBNZ is in the process of aligning regulation of all deposit takers under one framework, and introducing a depositor compensation scheme. More stringent regulatory oversight of NBDT's will promote public confidence in the sector, and in turn, enhance GF's capacity to obtain funding from depositors, in our view. Whilst we acknowledge that the related compliance cost burden could weigh on GF's profitability, the Company's healthy capitalisation supports its ability to absorb any material impact.

Constraints

- Higher business model risks compared to traditional banks and large non-bank financial institutions constrain GF's rating. The Company's focus on collateral-based lending exposes it to a higher degree of market and credit risk, as recurring earnings of the borrower are not the primary source of the loan's principal repayments. Moreover, a major portion of GF's loan-book comprises interest only or interest capitalised advances to borrowers. As such, adverse developments in real estate markets, have the potential to expose the Company to an increase in credit and/or liquidity risks, and a reduced collateral cover. Furthermore, GF's modest scale underlines a moderately high, albeit reduced, concentration risk in its operations, as the top-six loans accounted for 172% (Mar21: 209%) of its total capital base and 16.4% (Mar21: 23.2%) of the total loan book at Sep21.

- The industry, and GF, are facing macroeconomic headwinds such as the spread of the omicron variant and resultant impact on consumer and investor confidence in the near-term. Further, high household leverage remains a key risk to the NZ economy, particularly in the light of strong house-prices appreciation in 2020 and 2021. The RBNZ is reducing the level of monetary stimulus, such as increasing the OCR in response to unsustainably high house prices, inflation and employment levels. High levels of household debt, and a large share of fixed-rate mortgages repricing in coming months, could increase the sensitivity of consumer spending to these interest rate increases, which together with the ongoing threat of disruption from COVID-19, underlines the high degree of economic uncertainty.

- GF's strong growth presents operating risks that the Company would be required to adequately manage to sustain the long-term health of the business. Whilst the recent increase in management team headcount has strengthened the Company's operational resource capacity, continued growth is likely to test the Company's ongoing capacity to attract and retain well-qualified and experienced personnel to manage larger operations, going forward.

The outlook for GF's credit rating is currently 'Stable', and a rating upgrade would require sustained improvement in scale and profitability, whilst maintaining asset quality.

The rating may be revised downward if there is material deterioration in GF's profitability, and/or if its pursuit of growth compromises risk management prudence.

Risk Rating

BB-

Outlook: Stable

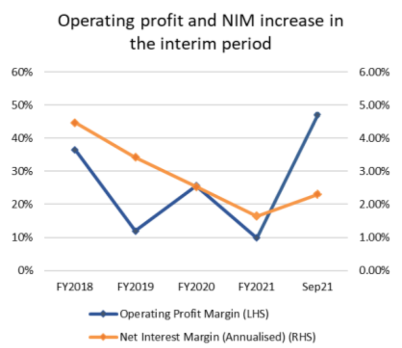
Type: Public, Monitored

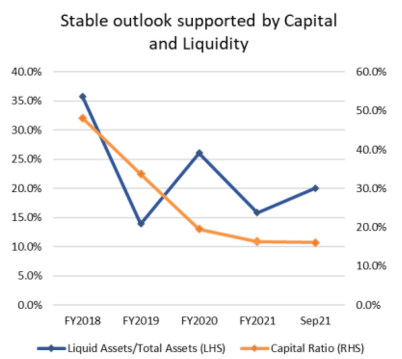
Industry Percentiles

Scale:	Percentile*
Total Assets	17%
Gross Loans	58%
Profitability:	
NIM	33%
ROE	100%
ROA	83%
Efficiency Ratio	75%
Capitalisation:	
Leverage (Gross loans to Equity)	0%
Capital Ratio	67%
Capital to Total Assets	0%
Funding and liquidity:	
Deposits to Loan Ratio	42%
Liquid Assets to Total Assets	33%
Asset Quality:	
Net Charge-offs	100%
Impaired Loans	33%
Provision for Loan Losses	75%

GF Sep21 results compared to the FY21 benchmark

Key Trends





2. Scope of Report

The purpose of this report is to provide a Credit Rating Synopsis on General Finance Limited ("GF", "the Company").

We have complied with our rating services guidelines in order to derive the credit rating on General Finance Limited. The credit ratings and observations contained herein are solely statements of opinion and not statements of fact or recommendations to purchase, hold or sell any securities or make any other investment decisions. The details pertaining to this report are outlined below:

Report Details	
Date of Report	**28 February 2022**
Request Type	**Issuer**
Assessment Type	**Under Ongoing Monitoring**
Rating Initiation	**Issuer based (solicited)**
Rating Distribution	**Public Rating**
Report Distribution	**Unrestricted**
Purchased by	**General Finance Limited**
Report Fee	**Fixed Price**
Ancillary fees	**Nil**
Issuer Name	**General Finance Limited**
Issue Name	**Not Applicable**
Issuer First Time Rated	**No**
Issue First Time Rated	**Not Applicable**
Financial Scope	**Standalone Entity**
Structure	**Limited Company**
Industry	**Financial Services**

This report should be read within the context of Corporate Scorecard's Rating Services Guide. This Report should be taken as a whole and cannot be abridged or excerpted for any reason.

We have conducted this assessment on the basis of the information provided to us by General Finance Limited, publicly available information and from our own enquiries. We have derived a credit rating on the Company based on the understanding that General Finance Limited has no contingent liabilities, cross guarantees or other liabilities to any other entity other than as disclosed to us or as detailed in the financial statements. Our duty does not include auditing the financial statements.

Information Sources	
Financial statements	**Audited Interim Financial Statements for the 6-month period ended 30 September 2021.** **Audited Financial Statements for the years ended 31 March 2021, 2020 and 2019.**
Name of auditor	**Baker Tilly Staples Rodway Auckland**
Other Information Sources	**The Company's response to our Request for Information, the Company website, industry and regulatory websites, management interviews, media articles, adverse searches and internet searches.**
Subject participation	**Full**
Material financial adjustments	**None**
Limitations of assessment	**None noted**
Outsourced rating activities	**No**
Confidentiality agreement	**No**
Material client	**No**
Rating amended post issuer disclosure	**No**
Potential conflict of interest	**GF is also a user of other Equifax products which are procured on commercial terms.**
Rating methodology	**Financial Institution Rating Criteria**

This report should be read within the context of Equifax's Ratings Services Guide.

APPENDICES

1. Explanation of the Equifax's credit rating

1.1 What is a rating?

Credit ratings provide an Agency's opinion as to the capacity, viability and willingness of an entity, issuer, or counterparty to meet their respective financial commitments. As such, Equifax assigns ratings based on the credit worthiness of an entity, commitment or product, and provides probabilistic assessments of default over the short, medium and long-term.

Credit ratings are a critical measure used extensively in commercial, financial and capital markets to support key business decisions. Equifax's credit ratings are used to support debt and bonding decisions, loan origination and recovery, insurance and warranty, funds management, portfolio management, tendering and procurement, counterparty risk assessments and other commercial contracts.

Equifax provides credit ratings on government and commercial agencies, international conglomerates, infrastructure consortia, financial institutions, publicly listed entities, private corporations and small-to-medium sized enterprises across a range of industry sectors both domestically and internationally. As such, Equifax is also able to provide detailed industry intelligence, benchmarking reports and analysis across a wide range of sectors.

1.2 Equifax's credit rating

Equifax and other credit rating agencies all attempt to measure the probability of an entity being able to honour its financial commitments as and when they fall due. The most recognised credit rating is that based on Bond Rating Equivalents (BRE) used over the past eighty years to determine the proximity of an entity's securities to default (non-payment of interest or principal). The accuracy of this method has been extensively tested and is accepted worldwide.

The Equifax's database contains more than 100,000 financial years of information spanning more than twenty-five years. As such Equifax is in a unique position, having developed a large and empirical data source on entities across various industry sectors with long data histories covering a range of economic conditions and one or more complete business cycles. Equifax has therefore been able to use a variety of quantitative validation tools and comparisons using this information to adequately verify the stability, accuracy and consistency of its rating models.

Equifax's rating models have been designed to assess the proximity of an entity to defaulting on its financial commitments and obligations. Proprietary risk analytics are used to evaluate the multivariate interrelationship of key risk indicators using scientifically based and empirically derived risk metrics. These models evaluate the financial performance, position and profile of an entity in the context of its industry, size and structure. They have been validated on Australian and international data with the assistance of Professor Edward Altman, an internationally recognised leader in the field of credit risk analysis and bankruptcy prediction.

Equifax uses its comprehensive benchmarking database to evaluate the financial position, performance and credit quality of an agency, institution, corporation or entity relative to an industry and its peers. This enables the identification of key sensitivities, trends, cautionary alerts and exception reports based on identified anomalies and/or outliers across key credit indicators of a select benchmarking group.

While there is no single method to discriminate unambiguously between firms that will default and those that will not, Equifax can make probabilistic assessments of default. This requires a large database of actual defaults to enable an assessment of default probabilities and actual default rates from empirical evidence. The Australasian market has a comparatively small number of corporate bond issues and a relatively benign credit climate over recent decades, and as such empirical data on Australian default rates is limited. Therefore, Equifax considers it is more appropriate to apply default probabilities using empirical data from international markets over several economic cycles.

Equifax's default statistics have been derived from nearly twenty years' experience analysing mainly US non-financial, non-utility corporate bond issuers. The analysis covered a relatively large number of companies (approximately 1,000 rated each year) and follows the well-established static pool approach used by Credit Rating Agencies to report their default experience. Static pools were created for bond issuers each year by both notch and grade, and the history of these bond issuers was then analysed over the period. The pools were then combined so that long-term average default experience by duration could be calculated, and both annual and cumulative default experience was calculated from the pools.

Equifax's risk analytics enable analysts to evaluate the most critical and sensitive financial and risk items through the Risk Assessment Platform by analysing key indicators to derive a definitive credit risk score and Bond Rating Equivalent (BRE), providing Probabilities of Default (PoD) over the short-, medium- and long-term horizon.

1.3 Rating Definitions

Credit ratings provide an Agency's opinion as to the capacity, viability and willingness of an entity to meet their respective financial and contractual commitments. As such credit ratings are assigned in accordance with the entity, commitment or product's proximity to default. Equifax adheres to internationally recognised grades and are similar to other agency classifications, providing ratings across twenty-two credit notches from 'D' (in default) to 'AAA' (extremely strong).

Moody's	Fitch	S&P	Rating	Default rates (5 years)	Classification	Risk Level
Aaa	AAA	AAA	AAA	0.17	High Grade	Negligible
Aa1	AA+	AA+	AA+	0.31		
Aa2	AA	AA	AA	0.44		
Aa3	AA-	AA-	AA-	0.55		
A1	A+	A+	A+	0.76	Investment Grade	Very Low
A2	A	A	A	0.81		
A3	A-	A-	A-	1.47		
Baa1	BBB+	BBB+	BBB+	2.08		Low
Baa2	BBB	BBB	BBB	3.19		
Baa3	BBB-	BBB-	BBB-	4.37		
Ba1	BB+	BB+	BB+	7.13	Near Prime	Low to Moderate
Ba2	BB	BB	BB	7.49		
Ba3	BB-	BB-	BB-	10.52		
B1	B+	B+	B+	16.34	Sub Prime	Moderate
B2	B	B	B	22.21		
B3	B-	B-	B-	24.16		High
Caa1	CCC	CCC+	CCC+	28.16	Credit Watch	Very High
Caa2		CCC	CCC	29.90		
Caa3		CCC-	CCC-	39.16		
Ca		CC	CC	52.87	Distressed	Extremely High
		C	C	55.00		
C	D	D	D	100.00		

Equifax assigns ratings based on the credit worthiness of an entity or a specific financial commitment, and provides probabilistic assessments of default over the short, medium and long-term. Every entity or commitment has some probability of default over a period of time, even those assigned with the strongest of ratings. An Investment Grade classification is attributed to credits that exhibit a lower probability of default, while a Sub-Prime classification has a greater expectancy of default.

An Equifax's credit rating may also be assigned additional clarification markers (symbols) to qualify the credit risk assessment. These may include:

Conditional Rating (#)
A Conditional Rating is used where Equifax has rated an entity on the basis of significant risk factors and/or report qualifications, with recommendations providing one or more conditions precedent and/or mitigation action(s) to reduce identified uncertainty and risk.

Provisional Rating (*)
A Provisional Rating is used when the most recent financial figures are based on draft management accounts or are deemed out-of-date. Entities with a provisional rating should be re-evaluated as soon as finalised financial statements become available.

Indicative Rating (^)
An Indicative Rating is used where Equifax is engaged to conduct preliminary analysis only, and as such an official rating assignment would require a more detailed and comprehensive investigation and due diligence assessment prior to the provision of our professional opinion.

1.4 Rating Outlooks

Equifax's forward estimates help ascertain the trajectory of ratings as well as the risks to ratings. Ratings with a positive trajectory are assigned 'Positive Outlooks'. Ratings with a negative trajectory are assigned 'Negative Outlooks'. Where Ratings are expected to remain unchanged, a 'Stable Outlook' assigned.

Rating trajectories are closely related to the outlook for the corporate's earnings. Earnings growth that is within sustainable growth parameters together with an attenuation of earnings volatility provide upward rating pressure and so may warrant the assignment of a Positive Outlook.

Credit Concepts measured

The main credit concepts measured against Australian and New Zealand Standard Industry Classifications (ANZSIC) and specific Peer Groups based on entity size are available in Corporate Scorecard's Rating methodology, which can be found at the below-mentioned links

http://corporatescorecard.com.au/services_credit_ratings.php

http://corporatescorecard.com.au/docs/RatingMethodologyFinancialInstitutionRatingCriteria.pdf

2. Regulatory Disclosures and Disclaimer

Equifax Australasia Credit Ratings Pty Ltd (Equifax Credit Ratings) is a credit rating agency regulated by the Reserve Bank of New Zealand. The licensing regime addresses a range of matters including the quality and integrity of the ratings process, independence and avoidance of conflict of interest, and responsibilities to the public, clients and assessed entities. The regime also covers confidentiality, communication and disclosure, professional development, document management, and a range of governance related matters. Financial, operational and compliance audits are conducted by external, independent auditors each year.

Equifax Credit Ratings also holds an Australian Financial Services License (AFS License no. 341391) which licenses it to provide credit ratings to wholesale clients in Australia.

The credit rating issued by Equifax Credit Ratings reflects our current opinion of the relative credit risk of the institution. This opinion has been formed in accordance with Equifax's published credit ratings methodology - financial institution rating criteria (version 7, 2020).
https://www.corporatescorecard.co.nz/docs/RatingMethodologyFinancial.pdf

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