

Filling SA's lending gap

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Agility, quick turnaround, and personalised service gives the group an edge over traditional lenders.



The lending space in SA is one that has traditionally been dominated by the banking sector, at times perceived as being risk-averse and operating within strict lending criteria. This has led to a gap in the market for alternative funders to provide innovative solutions for customers who often have unique and varied needs. One business that has quietly been making significant inroads into this space with an entrepreneurial, solutions-driven mindset is the Merchant West Group. A diversified financial services portfolio of businesses with debt securities listed on the JSE, Merchant West is the largest privately owned provider of specialised financial solutions in SA.

The early days

Founded in 1998 by a trio of former Investec executives, and initially established primarily as a lending business, Merchant West's offering soon gained traction with clients, given its focus on close client relationships and bespoke solutions. By 2005, the business had realised the need to provide clients with funding that was subject to its own credit process if it hoped to grow to the next level.

Merchant West expanded its offering, providing clients with working capital, credit extension and transaction structuring. It also acquired a fleet management business. By this stage, Merchant West was firmly classified as a lending business with all its various entities subject to the same cycles and all similarly capital intensive.

In a bid to diversify operations with fee-generating, countercyclical businesses, it bought an advisory business, Sterling Wealth Management, and a controlling stake in Counterpoint Asset Management, a boutique asset management business.

More recently, it merged its corporate treasury outsourcing business with the individually focused treasury operations of the Incompass Group. This created a sound platform for corporates and individuals to trade from, in addition to the management of their money market activities.

The Merchant West Group activities are now firmly divided between lending and advisory activities.

The group extended beyond its traditional Joburg base and established offices in Cape Town, Durban and Pretoria and

later in George, Mbombela (formerly Nelspruit) and Gqeberha (formerly Port Elizabeth).

“From the beginning, our growth, and indeed the footprint of our business, has been dictated to by clients,” says founding director and group CEO Braam Viljoen.

Expanding the net

A sluggish local economy and emerging opportunities in other territories in recent years resulted in the establishment of a Namibian office and, more recently, an office in Botswana, where the group is replicating its local service offering. However, it is a partnership in the US state of North Carolina that is particularly promising. “North Carolina’s economy alone is two and a half times the size of SA’s, so this provides an exciting opportunity,” says Viljoen.

All Merchant West’s businesses located beyond SA’s borders are serviced by a local and centralised administration and back-office function in Sandton. Given the current exchange rate, servicing US dollar-based income in rand is proving lucrative for the group.

The group originally serviced only corporate clients, but three years ago its lending activities were extended to wealthy individuals to finance assets such as solar installations, aircraft, yachts and golf course equipment.

While its lending and advisory businesses are all SA-based, the advisory business in particular has strong links with the offshore assets of its clients.

Personalised service philosophy

Like many businesses, for the past few years, Merchant West has been automating its internal processes. While this offers significant benefits, Viljoen insists it won’t replace the personal touch that has become a hallmark of Merchant West’s offering.

“There is no question that technology is a great tool to streamline the business internally, but we know the value personal engagement offers, particularly the ability to really understand the needs of our clients. That personal touch is what has long differentiated our business and is not something that we will willingly relinquish.”

Viljoen says it’s people who make the difference throughout the group. The majority of staff in its employ are graduates, mostly with multiple tertiary degrees. “We tend to employ people who enjoy interacting with people, who are good communicators and innovative thinkers.”

Though the group has become more flexible after the pandemic with regard to hybrid work arrangements, Viljoen says the team accepts that it’s harder to engage with clients via virtual platforms than it’s in person.

“We go out of our way to facilitate face-to-face meetings with our clients – it’s not uncommon for an adviser to drive up to 500 km to see a client.”

Today the Merchant West Group provides tailor-made lending, wealth management, asset management and transactional solutions to corporates, SMEs and wealthy individuals in SA, Namibia, Botswana and the US.

Flexible and bespoke lending solutions

Merchant West’s lending business is premised on a philosophy of helping its clients acquire the assets and equipment they need for their immediate use. Its lending products extend to bespoke asset finance across an extensive range of asset classes, fleet finance, working capital funding, and property finance solutions.

The group finances a wide range of assets across several industries and sectors including agriculture; aviation; construction and manufacturing; industrial and mining; IT hardware, software and office automation; leisure; logistics and

transport; medical; renewable energy; and safety and security.

Its growth, says Johan Pretorius, group COO of Merchant West, is premised on flexibility and bespoke solutions. “We don’t have the luxury of offering the lowest cost of funds, so we create flexibility to add value.”

He says Merchant West offers a good alternative to its clients’ main funders. In a volatile environment where businesses are under pressure to unlock cash, Merchant West is able to help its clients create efficiencies; provide working capital to attract new customers; and secure early settlement discounts from suppliers as well as sale and leaseback financing options to unlock trapped liquidity in unencumbered assets.

“One of our biggest advantages is our agility and quick turnaround,” says Pretorius. “We’re able to approve lending more quickly than a traditional lender, which has huge benefits for client businesses as it allows them to add to their bottom line more rapidly.”

It’s an industry where relationships are critically important. “We don’t always lend as much as the client has requested. In these instances, it’s important to explain the reasons for this. Having a trusted relationship in place certainly makes this easier, particularly if the client understands that our long-term aim is to ensure their businesses are sustainable and positioned for growth. Ultimately, the value our business brings is the benefit we create less the cost of the transaction.”

Lending businesses, says Pretorius, tend to be in demand through economic cycles. “If the economy grows, there is more demand for debt. In tough times, companies tend to hold onto cash, which results in a growth in demand for debt funding.”

Diversification across industries

Merchant West has a well-diversified lending book across a range of industries, underpinned by sound risk management. “It’s easy to lend money; the key is to lend wisely to ensure you get paid back,” says Pretorius.

In SA, the lending sector is a competitive space. Fundamental to being successful is to be well-diversified and not overexposed to any one sector. At the same time, it’s important to lend to clients with a proven track record.

As far as fleet finance is concerned, Pretorius recommends the use of solutions that allow clients to keep cash invested in their businesses rather than tying up working capital in a vehicle which depreciates in value. Merchant West offers independent advice on vehicles, cost alignment based on the expected usage of the vehicle, and a future value guarantee. This flexibility allows clients the option of buying vehicles at the end of the contract term.

The group’s working capital solutions, says Pretorius, are aimed at those clients who are restricted by their working capital cycle but want to expand and become more competitive.

“Clients would typically use our working capital solutions to attract new customers by extending their credit terms, securing early settlement discounts from suppliers, and thus optimise their cash flows. It also offers bridging finance to address both ‘cash out’ and ‘cash in’ timing differences. Ultimately, our product range is aimed at helping businesses unlock cash and optimise liquidity,” he says.

A specialised finance division uses specialist in-house expertise and the group’s robust balance sheet to meet consumer demand for ‘big ticket’ solutions characterised as high-value and high-complexity transactions.

A deep understanding of credit and a demonstrable track record allow the company to credit-vet transactions and provide investors with co-investment opportunities. The group’s minimum threshold for specialised debt financing transactions is set at R65m right now.

Proven deal-making expertise means the group is well positioned to arrange, structure, implement and administer solutions including securitisation funding; syndication and structured finance; and the sale of investable structures and instruments for institutional clients, development finance institutions, impact investors and banks.

The business is also a niche provider of treasury products and solutions to both corporate and individual clients with foreign exchange, cash management and risk management requirements.

“We’ve seen our transactional solutions value proposition resonate with clients who need cost-effective solutions as importers and exporters, and those who deal with currency volatility in their international money transfers,” says Pretorius.

After merging with treasury solutions company InCompass earlier this year, Merchant West now covers the full spectrum of forex and money market solutions across both corporate and individual sectors.

“To date, we have helped more than 20,000 clients with more than R50bn in transfers as well as providing treasury outsourcing, forex for travel, derivative risk participation and single discretionary and foreign investment allowance advice and support,” says Viljoen.

Merchant West’s financing options extend to commercial property for corporate clients, with loans of up to R20m advanced. Its property finance solutions are structured with a final bullet repayment and are concluded for a three- to five-year contract term. Its solutions also use sale and leaseback structures to unlock value from mortgage-free commercial property to facilitate optimal capital management.

Enduring client relationships

Sterling Private Wealth, a niche wealth management and consulting business providing holistic wealth management advice to successful entrepreneurs, executives and retirees, had assets under management amounting to R13.3bn at the end of March 2022.

Its advice-driven value proposition is based on three pillars: long-term personalised client relationships, independence, and cost-containment. Merchant West acquired a controlling shareholding in Sterling in 2019.

Established in 2002 by former Alexforbes executives with a vision to offer a more flexible, boutique-style wealth management business, Sterling has attracted significant assets over the past decades.

This is in large part due to a rigorous process involving due diligence and selection of global and blue-chip local investment management teams, then matching investment mandates to client needs for capital and income.

“Our advice process is client-centric and bespoke, with enduring client-relationships which are often inter-generational, resulting in consistency in decision-making which ensures money is pre-served and nurtured,” says Graydon Morris, MD of Sterling Private Wealth.

The challenge for any local wealth management business is the high rate of emigration among wealthy individuals, he says. “We need the economy to grow and emigration to slow down to avoid assets being lost to the global environment.”

Despite the high rate of emigration, Sterling has continued to grow, often continuing to manage clients’ investment portfolios even after they have emigrated. Morris says more than 50% of the assets under management in the business are externalised.

While the advisory industry is under threat from robo and automated advisers, Morris says this has less impact on Sterling’s client base which tends to be more mature individuals including those who are at, or close to, retirement. This category of client, he says, continues to prioritise personal interaction and engagement.

The business is also cognisant that it needs a pipeline of future clients and therefore cannot ignore younger clients. “It’s a delicate balancing act and we realise we need to pay attention to potential clients across the age spectrum. We try to be as discerning as possible. about which younger clients we take on.”

Sterling, which has traditionally enjoyed annual growth of 20%, has to date grown solely based on referrals. “In our experience, the better we look after our existing clients, the more business we attract,” says Morris.

He says that in the wealth advisory business, confidentiality and discretion are sought-after attributes, with successes tending to attract like-minded investors. Based on their value-orientated philosophy, the business focuses on income preservation and growth as well as risk management.

Morris says all Sterling’s wealth managers are either certified financial planners carrying the international CFP designation or are senior financial professionals. The business deliberately limits client numbers to create a family office environment, with an emphasis on personalisation and a high-touch service model.

Risk-adjusted real returns

Merchant West is a controlling shareholder in Counterpoint Asset Management, an award-winning multi-strategy asset management business. Founded in 2012, Counterpoint focuses on a variety of strategies and asset classes with money market, income, multi-asset class, listed property, and global equity funds. It also offers a range of unit trusts across the asset class spectrum, satisfying a variety of institutional mandates, investment objectives and risk tolerances.

What sets the business apart is a robust research and investment framework that enables it to deliver risk-adjusted real returns across the asset class spectrum, without taking outsized risks on its clients’ behalf.

Other differentiators, says Morris, include the way the firm interprets publicly available information. The interpretation, which is unique to Counterpoint, is a product of the composition and diverse experience of its skilled investment team. At the same time, the business exploits the behavioural biases of market participants.

This approach, when applied within the firm’s research and investment framework, offers a compelling risk-adjusted version of value investing which represents an evolution of multi-strategy investing that is highly relevant in the current market. Its smaller size, he says, allows the business to take meaningful positions in securities that offer return outcomes without affecting portfolio liquidity disproportionately.

The firm assesses every security trading below its fair value against the broader macro environment to ensure that it remains attractive in the current circumstances and the various factors at play in the market. “Value can’t be assessed in isolation from the current investing environment,” says Morris.

Counterpoint had aggregate assets under management of R9.2bn by the end of March 2022.

The success of its investment philosophy has been independently recognised. In 2021, Counterpoint received two Raging Bull Awards for Best SA General Equity Fund over three years and five years (risk-adjusted). The awards celebrate the best of the SA collective investment industry. The company also won the Morningstar Research award for the Best SA Equity Fund measured to 31 December 2021.

Far from there being a conflict of interest between Merchant West’s wealth management and asset management business, Morris says the close relationship between Counterpoint and Sterling is an advantage, providing wealth management clients with direct access to a fund manager. “The higher level of interaction between the two businesses not only makes us unique, but adds significant value for clients,” he says.

A high rate of client retention

Merchant West’s strategy has resulted in a high client retention rate. “Treating customers fairly and ethically is a non-negotiable in our business,” says Viljoen. “This, combined with being a hard-working business staffed by highly driven and motivated specialists, means our customers trust us. We have a particularly high rate of repeat and long-term customers.”

Good corporate governance is non-negotiable

Corporate governance failures at a number of large corporate entities in recent years have put increased attention on this

important area.

At Merchant West, adherence to good corporate governance practices underpins all the group's business dealings, says Tladi Ditshego, non-executive chair of Merchant West Holdings.

"The group has the benefit of having experienced business leaders with proven track records at the helm of each business. However, despite the value we place on each of them and their individual capabilities, no single leader is accorded hero worship status, and collective decision-making and responsibility are the norm," says Ditshego.

"In our lending business, for example, we aim to be a responsible lender at all times, ensuring the appropriate due diligence is conducted before lending and bringing international best practices into our lending activities."

Ditshego, a development economist by training, is passionate about creating shareholder value and sustainable business development to create a trajectory of positive impact. "For a business to be sustainable, it's critical to be, first and foremost, profitable and to create shareholder value. The next priority is to use those profits to grow and develop the business and that of its clients, and to make a positive impact in terms of job creation and uplifting communities. I'm a firm believer that doing good is good business."

A focus on environmental, social and governance (ESG) fundamentals is being embedded into the business at every level, he says. "Though ESG is still in its infancy in SA, there is no question that adherence to an ESG framework will lead to greater investor confidence in the future," says Ditshego.

Not only do all the group's investments embed good corporate practices, but they also all align with its values. His long-term vision for Merchant West, says Ditshego, is for the group to become a one-stop shop for expansionary lending and advisory services and best practices in both of these disciplines.

At the same time, he expects the group to successfully straddle the needs of both the private and public sectors and to be a shining light in the industry as it embeds ESG into its activities.

Ditshego is excited about Merchant West's expansion into the US market, particularly given the low-growth environment prevalent in SA. Further expansion of the group's advisory business into either Ireland or the UK is potentially also on the cards.

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