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## RHG's Friday Night Announcement

Welcome to another edition of Friday Night Announcements: when you don't want it heard, you'll hear about it here.

When a company reports its results after 5pm on a Friday afternoon, you can usually assume it's a shocker.

Not so **RHG**. The company does have a habit of releasing its results when most observers have clocked off for the day, but the results are unfailingly better than expectations. It's almost as if they are trying to keep the good news quiet (did I say almost?).

The company reported a profit of \$43m for the half year. Adding that to the company's existing pile of assets, RHG now has net tangible assets (NTA) per security of \$1.11. The result was boosted by \$11.3m of income released thanks to the refinancing of a funding facility but, even so, the cash this business is generating makes a mockery of management's comment at last year's AGM that the future runoff was 'perhaps worth \$15-20m'.

It generated a lot more than that in the past six months and there is plenty more to come. The runoff rate – the rate at which the loan book is being repaid – has slowed dramatically. In the past six months the loan book declined by only 12%, an annualised rate of only 23% compared with an annualised rate of 40% at the same time last year.

Those borrowers that can refinance away from RHG's high home loan rates have most likely already done so. The majority of the remainder would be low-doc borrowers with limited alternatives in the current market. Unless there's a dramatic change in the market, low runoff rates could be a feature of RHG's remaining life.

I estimate there's somewhere between \$120m and \$160m of post-tax value left in the loan book (assuming runoff rates of 24% to 35%). That would take the NTA up to somewhere between \$1.47 and \$1.62. If they buy back a large chunk of the shares at \$0.88 each in the upcoming buyback, it could be substantially higher than that.

There is going to be a clear case for maintaining at least some shareholding in RHG post buyback. But we still don't know management's plans for the remaining business. Are they planning on paying regular dividends? Is this the vehicle for a new business or a return to the mortgage market?

For all this and more, keep your eye on Friday Night Announcements.