FitchRatings

RATING ACTION COMMENTARY

Fitch Places Credivalores' LT IDR on Rating Watch Negative Due to Coronavirus Pandemic

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Fitch Ratings - New York - 13 May 2020: Fitch Ratings has placed Credivalores Crediservicios S.A.S.'s (Credivalores) Long-Term (LT) Foreign Currency (FC) Issuer Default Rating (IDR) on Rating Watch Negative (RWN) and has affirmed Credivalores' Short-Term (ST) IDR at 'B'. The LT Rating of the senior unsecured debt has also been placed on RWN.

The RWN reflects the increasing near-term risks mainly arising from the credit card business, as Fitch believes the deteriorating operating environment, as a result of the coronavirus outbreak, will adversely affect the payment capacity of its client base, which is expected to affect Credivalores' credit metrics, mainly asset quality and profitability. Although the magnitude of the negative effects from the coronavirus are still uncertain, Fitch believes current challenges from the operating environment pose short-term pressures to the rating, as effects from the economic downturn could rapidly impact the entity's already low profitability and high tangible leverage metrics. .

Credivalores' LT IDR Outlook had initially been revised to Negative in 2019 to reflect Credivalores' weakened asset quality metrics, which added pressure on the already modest profitability and loss absorption capacity. Despite certain improvements in asset quality metrics at YE 2019, Fitch expects a weakening of the metrics to be seen during first-half 2020 due to the pandemic. Fitch has also recently adjusted its assessment of the operating environment faced by financial institutions in Colombia to 'bb+' with a Negative Outlook.

KEY RATING DRIVERS

Credivalores' IDRs are highly influenced by the company's profile and concentrated nature within the financial system, which, despite is small size, benefits from its role as one of the largest non-bank financial institutions engaged in consumer lending to the low-to-mid income population. The ratings also consider, as high influence factors, the company's modest profitability and high leverage, while at the same time incorporates in the ratings the company's good funding flexibility and adequate liquidity to confront current challenges from the operating environment.

During the first few quarters of 2019, Credivalores' asset quality metrics experienced an increase in non-performing loans and charge-offs, especially in its credit card segment. This, along with the earlier adoption of IFRS 9, resulted in higher credit costs that affected the company's profitability. To mitigate the deterioration in asset quality, the company imposed a series of measures including tighter underwriting and collection policies, along with technological and system improvements that reversed the increasing trend. However, the effects of the coronavirus pandemic are now expected to partially offset improvements and to result in a higher level of impairments due to the already significant level of requests for loan renegotiations and delays in repayments.

Credivalores' ratio of non-performing loans past due over 60 days (NPL) improved to 11% at FYE December 2019 from 13% as of December 2018, driven mainly by improved underwriting and collection policies. The overall loan loss coverage ratio on Credivalores' managed portfolio also improved to 111% from 88%, which is a relatively more comfortable level in view of the lower risk of its payroll/pension-backed loan segment, which represented nearly 60% at the beginning of May 2020 of the total managed portfolio. In addition, the entity has been focusing on increasing its credit card origination in lower-risk segments. Fitch will evaluate the extent of loan renegotiations and its effect on the structural asset quality of the entity.

Credivalores' profitability remained weak for 2019 as it continues to be affected by higher credit costs, lower loan growth and higher investments. Fitch expects the remainder of 2020 to remain lackluster in terms of profitability. We expect the already low levels of profitability provides the entity with little room to manage and absorb additional asset quality deterioration and loan loss reserve requirements.

To mitigate the low level of internal capital generation, the company's shareholders made a capital infusion during first-quarter 2019. Despite this increase, the rating also considers Credivalores' relatively higher leverage ratios for its concentrated and higher-risk business model. Fitch believes leverage could be pressured if profitability reduces further or if the entity reports losses due to the coronavirus' economic effects on its borrowers, depending on the size of the impact this could be partially offset by expected lower on-balance-sheet loan growth.

Although the funding profile is wholesale and confidence sensitive, Credivalores' current funding and liquidity metrics remain at satisfactory levels with average maturity tenors of close to 3.4 years. The company has been able to expand its sources of funding from both domestic and foreign lenders. The bank also placed a USD300 million, five-year note in February 2020 of which USD119 million remained as cash on their balance sheet as of March 2020. Sources of funding appear ample to cover upcoming 2020 and 2021 debt amortizations and fund future growth.

Fitch believes management needs to prove effective in executing its strategies in enhancing asset quality, profitability and leverage metrics that have deteriorated over the past few years. Management and strategy are expected to be tested under the current challenging conditions.

RATING SENSITIVITIES

Factors That Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

Credivalores' ratings are currently on RWN, due to the short-term risks to its profitability, leverage and asset quality metrics, given the coronavirus outbreak. This makes an upgrade highly unlikely in the near future.

Ratings could be removed from the RWN and affirmed with a Stable Outlook if the company is able to stabilize its operational profitability, asset quality and leverage in a level consistent with its current ratings despite deterioration in the operating environment or if it shows ability to revert effects in a relatively short period of time. Ratings continue to be sensitive to significant changes in Credivalores' company profile.

Ratings could be upgraded by the confluence of a relevant improvement in the asset quality, earnings and leverage, together with an improvement of the operating environment.

Factors That Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

Credivalores' IDRs could be downgraded if there is a relevant increase in tangible leverage, measured as tangible leverage sustainably above 8.5x, or if profitability metrics deteriorate relevantly, measured as negative operating income, that reduces the company's ability to absorb unexpected losses.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING			RECOVERY
Credivalores Crediservicios S.A.S.	LT IDR	B+	Rating Watch On	
	ST IDR	B	Affirmed	
• senior unsecured	LT	B+	Rating Watch On	RR4

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Non-Bank Financial Institutions Rating Criteria (pub. 28 Feb 2020) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Credivalores Crediservicios S.A.S.	EU Endorsed

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