Credivalores Crediservicios S.A.S. (/gws/en/esp/issr/96535500)

FitchRatings

Fitch Affirms Credivalores IDR at 'B+'; Outlook Stable

Fitch Ratings-New York-11 July 2018: Fitch Ratings has affirmed Credivalores Crediservicios S.A.S.'s (Credivalores) Long-Term Foreign Currency Issuer Defaults Ratings (IDR) at 'B+' and Short-Term Foreign Currency IDR at 'B'. The Rating Outlook is Stable. A full list of rating actions follows at the end of this release.

KEY RATING DRIVERS

IDRs

The Credivalores' IDRs are highly influenced by the company profile and asset quality metrics. The ratings also consider the company's relatively ample risk appetite due to its focus on the low to middle income segments, modest financial performance, and capitalization and the recently improved funding flexibility.

Fitch recognizes Credivalores' 15-year track record of building its franchise throughout Colombia. The company has become one of the largest non-bank financial institutions with a business model focused primarily on the payroll-deductible lending business (Libranza) segment. It has also grown its other main sources of revenue through credit card lending and the financing of insurance products.

Despite Credivalores' strong position in the competitive payroll and credit card industry, its ratings are constrained due to its limited market share in the low to middle income consumer lending segments relative to other financial institutions targeting the same segment. The company's less diverse retail business model and limited pricing power (due to regulatory interest rate caps on what payroll lenders can charge) could increase the entity's vulnerability to external factors and the operating environment.

Credivalores impaired loan ratio of 10.6%, as of March 31, 2018, has remained stable over the past few years. Loan Loss Coverage to Impaired loan ratios of 126% of impaired loans appears satisfactory. Charge-off ratio increased to 6.9% as of March 31, 2018.

Credivalores' profitability is modest; however, profitability metrics have improved over the last 12 months ending March 31, 2018. The positive trend is expected to continue at least over the short-term given investments in efficiency, credit growth and the sourcing of stable and cost efficient long-term funding. Lower revenues following the discontinuation of portfolio sales and the lower risk appetite during the second half of 2016 during the "Libranza Crisis" are being offset by loan growth. This has resulted in improved operating profitability. Fitch expects that these positive trends will continue for the remainder of 2018 and into 2019 when return ratios are expected to be satisfactory. Management currently forecasts return ratios to be similar to 2015 levels.

Funding and liquidity has improved over the past 12 months. Credivalores has extended the average tenor of its funding and has greatly reduced the level of its secured debt up to 12% at March 31, 2018 from 52% at Dec. 31, 2016. However, funding is still concentrated and could be sensitive to market sentiment. Fitch will consider refinancing risk from increased levels of market debt in its analysis.

The rating also considers Credivalores' relatively high leverage ratios for its concentrated business model, which is at 7x as of March 2018. Fitch believes future leverage metrics could be relatively pressured due to expected on balance sheet loan growth and still modest earnings. The company plans to continue refraining from paying dividends to support internal equity growth.

Credivalores has recently strengthened its management team by adding a new CFO with extensive banking experience. The company expects to expand its credit offerings and fee-generating, cross-selling opportunities while continuing its focus on regions where there is less competition. Management expects to use its credit-granting agility and other efficiencies gained from recent technological investments to provide a service level that makes Credivalores' products and services more attractive to potential clients, especially when compared to its larger competitors. These factors are likely to result in a sustained improvements in profitability and when necessary, recovery of impairments. However, this is subject to the continued strengthening of the operating environment, the degree of competition and unforeseen events.

RATING SENSITIVITIES

IDRs AND SENIOR DEBT

The Credivalores' IDRs are sensitive, in general, to relevant changes in its company profile and credit metrics. In addition, an improvement in Credivalores' profitability that leads to stabilization of pre-tax income to average assets greater than 1.5% could be positive for the company's Long-Term IDR. A relevant increase in leverage or a sustained deterioration in the company's asset quality metrics that reduces the company's ability to absorb unexpected losses could be negative for its ratings.

Senior Unsecured debt is at the same level as the IDR, and will mirror any change on the IDR. Fitch is maintaining the existing recovery rating at 'RR4', which is considered average.

Fitch has affirmed the following:

Credivalores
--Long-Term Foreign Currency IDR at 'B+'; Outlook Stable;
--Short-Term Foreign Currency IDR at 'B';

Senior Unsecured Notes
--Long-term Foreign Currency 'B+'/'RR4'.

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Applicable Criteria

Non-Bank Financial Institutions Rating Criteria (pub. 22 Jun 2018) (https://www.fitchratings.com/site/re/10034715)

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