

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



Fitch Assigns First-Time Rating to Credivalores of 'B+'; Outlook Stable

Fitch Ratings-New York-17 July 2017: Fitch Ratings has assigned a first-time Long-Term Foreign Currency Issuer Default Rating (IDR) of 'B+' and a Short-Term Foreign Currency IDR of 'B' to Credivalores-Crediservicios S.A.S. (Credivalores). The Rating Outlook is Stable.

KEY RATING DRIVERS

Credivalores' IDRs are highly influenced by the company profile and asset quality metrics. The ratings also consider the company's risk appetite, financial performance, funding profile and capitalization.

Fitch recognizes Credivalores' long track record over the past 14 years of building its franchise throughout Colombia into the largest non-bank financial institution whose business model focuses primarily in the payroll-deductible lending business (Libranza) segment while also growing 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, the company's focus on consumer lending to low and middle income segments of the population and limited market share in the overall financial system constrains its ratings as its 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.

With an impaired loan ratio averaging about 11% since 2014, asset quality compares below its regional peers (sub-investment grade finance and leasing companies). Nevertheless, the higher ratio is, in part, to CV's policy of minimize write-offs even though impaired loans over 360 days are fully provisioned. When adjusting for Credivalores' policy of minimizing write-offs and the impact of previous loan portfolio sales, the entity's loan quality ratios are in-line with those of its Latin American peers and with local Colombian peers. When excluding the non-performing loans (NPL) over 360 days that are fully provisioned, the over-60 day NPL ratio at Dec. 31, 2016 would be 3.43%.

Profitability, capitalization, funding and liquidity metrics are adequate for the company's rating level in light of its consumer sector concentration. Credivalores' profitability ratios have recently been constrained when compared to peers in part by higher interest rates for its funding, lower revenues following the discontinuation of portfolio sales and the lower risk appetite during the second half of 2016 during the 'Libranza Crisis'. Additionally, higher provisioning expenses also weigh on profitability. The rating also considers Credivalores' relatively small capital base in absolute terms, however, this is mitigated in part by Credivalores' ability access to multiple sources of liquidity and funding both from its shareholders and from well-known domestic and foreign lending institutions.

Fitch expects Credivalores financial performance to improve over the medium term as the company's strategy is to continue to focus on regions where there is less competition and to use its agility and technological investments to provide a service level that makes Credivalores' services attractive when compared to its larger competitors. Over the medium term, the company also expects to replace the lost revenues from portfolio sales with interest income generated by the larger balance sheet along with higher fee income. These factors are likely to result in a sustained improvement in profitability although this is subject to the strength of the operating environment, degree of competition and unforeseen events.

RATING SENSITIVITIES

Credivalore's IDRs are sensitive, in general, to relevant changes in its company profile and its credit metrics. Specifically, 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 sustained deterioration in asset quality that reduces the company's ability to absorb unexpected losses could be negative for its ratings.

Fitch has assigned the following ratings:

Credivalores

--Long-term IDR 'B+'; Outlook Stable;

--Short-term IDR 'B'.

Contact:

Primary Analyst
Robert Stoll
Director
+1 212 908 9155
Fitch Ratings Inc.
33 Whitehall St.
New York, NY 10004

Secondary Analyst
Andres Marquez
Director
+1 571 484 6770 ext. 1220

Committee Chairperson
Theresa Paiz Fredel
Senior Director
+1 212 908 0534

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria

Global Non-Bank Financial Institutions Rating Criteria (pub. 10 Mar 2017) (<https://www.fitchratings.com/site/re/895236>)

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