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Research Update:

Credivalores 'B+/B' Counterparty Credit Ratings Assigned; Outlook Stable

Primary Credit Analyst:

Ricardo Grisi, Mexico City (52) 55-5081-4494; ricardo.grisi@standardandpoors.com

Secondary Contact:

Ingrid Ortiz Machain, Mexico City (52) 55-5081-4440; ingrid.ortiz.machain@standardandpoors.com

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Overview

- Credivalores is a Colombian, nonbank finance company, which offers payroll discount loans, credit cards, and, to a lesser extent, insurance deferred premium services and micro-lending.
- In our view, its concentrated funding structure is a main rating weakness, which is offset by a solid business profile and adequate capitalization levels.
- We are assigning our 'B+/B' counterparty credit ratings on Credivalores.
- The stable outlook reflects our view that Credivalores will maintain its adequate capitalization levels, solid business risk profile, and manageable asset quality.

Rating Action

On Nov. 14, 2014, Standard & Poor's Ratings Services assigned its long-term 'B+' and short-term 'B' counterparty credit ratings to Credivalores - Crediservicios S.A.S. (Credivalores). The outlook is stable.

Rationale

Our ratings on Credivalores reflect what we consider a concentrated funding profile, it lacks financial flexibility (as the majority of its loan portfolio is encumbered) and it has low profitability levels for its risk profile and below-average reserves to nonperforming assets (NPAs) compared with its peers. Its well-established business profile compared with other Colombian finance companies, adequate capitalization levels, and experienced management team offset the negatives.

The concentrated funding profile is one of the company's main weaknesses, in our opinion. Credivalores' funding structure is concentrated, as more than 90% comes through bank lines, which fund the company through vehicles such as trusts, portfolio sales, and direct credits. These funding sources require collateral to provide credit lines. Although the company works with several banks, in our opinion, its high encumbered assets significantly reduces the company's financial flexibility, which during market downturns could reduce funding alternatives. Although we expect its market debt to increase over the next 12 months, we believe its funding structure will remain concentrated and mostly wholesale, which could be less stable during market distress.

We believe profitability levels are low for Credivalores' risk profile. The company has below-average net interest margins, return on average assets

(ROAA), and efficiency levels compared with its global peers. However, in Colombia, interest rates on consumer loans are capped, which, in our view, limits profitability levels and constrains net interest margins. Credivalores' main sources of income are interest loans. These loans come from its payroll discount business line, which contributed 47% of the company's total revenues as of June 30, 2014, followed by credit cards (47%) and insurance deferred premium service (8%). As of June 30, 2014, its ROAA was 1.2% similar to the average for the past three fiscal years compared with its main peers' average of above 2% for the same period. These peers have similar risk profiles. During the next two years, ROAA will likely be 1.5% due to our expectations for credit cards and payroll growth, which also includes a net interest margin projection below 6%.

Although the company's NPAs are manageable given its risk profile, its reserve coverage to NPAs is below that of other rated finance companies in Latin America. As of June 30, 2014, the loan loss reserves-to-NPAs ratio was only 85%, with a three-year average of 73%, compared with the more than 100% reserve coverage of its peers. As of June 30, 2014, NPAs were 7.6% and the average for the past three fiscal years was 8%. Credivalores' NPAs plus credit losses ratio is in line with its rated peers. During the next 18 months, we expect NPAs at 7.5%, which is slightly lower than that of 2013, and a reserve coverage which should remain below 100% but which could gradually increase.

In our view, Credivalores' business risk profile is solid, with an adequate market share and no significant client, sector or geographical concentrations. The company faces intense competition from other finance companies and, to a lesser degree, from commercial banks. Nonetheless, in our view, Credivalores has maintained steady and highly pulverized loan portfolio growth. As of June 30, 2014, its top 20 clients represented only 0.57% of its total credit portfolio, which is due to a business profile that is focused primarily on consumer lending. Also, geographic concentration is adequate as the company operates in more than 40 cities and municipalities throughout Colombia. Moreover, Credivalores' management team is effective, in our view, with sound experience in the company's main business lines and financial markets. Top management is closely involved in all operations and in the decision-making processes. We don't any changes in the current business profile or management team.

Credivalores' capital levels are adequate and we expect them to remain so. The company has made no dividend payments since 2010, and it has boosted its internal capital generation, and completed capital injections, which have strengthened its capitalization ratios. As of June 30, 2014, adjusted total equity (ATE) to adjusted assets was 12.6% and has remained above 10% in the past three fiscal years. Additionally, the firm's total debt to equity was about 4.0x as of the same date. We expect leverage levels to remain stable over the next two years. We also believe Credivalores will maintain its adequate capital levels thanks to its adequate internal capital generation and expected credit growth with a projected ATE/adjusted assets above 12%.

As of June 30, 2014, Credivalores' total portfolio was Colombian peso (COP)

870 billion (\$424 million at an exchange rate of COP2,052 to \$1) and total assets of more than COP1.100 trillion (\$536 million). The firm remains competitive in payroll loans and credit cards despite a very competitive environment in Colombia, and it continues benefiting from its expertise in its main business lines to maintain above-average market growth, which was 19.5% in 2013.

Outlook

The stable outlook reflects our expectations that Credivalores will maintain a concentrated funding structure with relatively low financial flexibility. The outlook also incorporates our expectation that the company will keep its adequate capitalization levels, good business profile reflected in market position and business diversification, and manageable asset quality. We could raise the ratings or revise the outlook to positive if the firm increases its funding diversification and/or improves profitability levels. We could lower the ratings if we notice a more aggressive risk appetite, such as a significant deterioration in credit quality indicators or a substantial reduction in liquidity, profitability or capitalization.

Related Criteria And Research

Related Criteria

- Criteria - Financial Institutions - Finance Companies: Rating Finance Companies, March 18, 2004

Ratings List

New Rating; Outlook Action

Credivalores - Crediservicios SAS Counterparty Credit Rating	B+/Stable/B
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