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Tanner Servicios Financieros S.A.

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Tanner Servicios Financieros S.A.

Credit Highlights

Issuer Credit Rating
BBB-/Negative/--

Overview

Key strengths	Key risks
Very high capitalization helps the entity absorb hypothetical higher credit lossses during distressed scenarios.	Chile's macroeconomic and political woes could erode domestic business conditions and capital adequacy.
Diverse business and revenue base relative to other Chilean nonbank financial institutions (NBFIs).	Lending strategy focused on cyclical sectors and a few problematic loans introduce volatility to asset quality.
Healthy liquidity management and diversified funding base compared with other local NBFIs, although it relies on wholesale funding.	

We expect Tanner to maintain sound capitalization and low leverage. Also, the entity has good bussiness diversification and market positioning in the factoring and auto loan segments, which are its core businesses.

We believe Tanner will continue to rely on wholesale funding. However, it benefits from a diverse funding base and proactive asset-liability management while maintaining adequate liquidity to meet its needs.

We estimate the company's asset quality metrics will remain worse than the industry. High credit risks on auto loans underwritten in past years and a few problematic corporate loans are dampening the company's asset quality, although we think it has good recovery prospects.

Tanner's ongoing restructuring doesn't immediately affect its creditowrthiness, in our view. On the positive side, as a banking group, it will benefit from a stronger regulatory framework, access to the central bank's liquidity facilities, and higher competitiveness, for example, through access to less expensive funding sources. However, our analysis of the group's market share, business and risk diversification, and funding profile would consider the banking peers in the system, which tend to be larger and more diversified.

Outlook

The negative outlook on Tanner for the next 12-24 months reflects downside risks until Chile's economy fully recovers and prospects for the medium term become clearer amid potential amendment of the constitution, the polarized political landscape, or other global developments.

Downside scenario

We could downgrade Tanner if we revise the economic risk score in Chile's Banking Industry Country Risk Assessment (BICRA) to a weaker category. In addition, we could lower the rating if the lender's intrinsic creditworthiness weakens.

Upside scenario

We could revise the outlook on the entity to stable if the pressures on the financial system decrease while Tanner's fundamentals remain unchanged.

Anchor: 'bb+' For NBFIs Operating In Chile

The anchor for Chile-based NBFIs is 'bb+', which incorporates a standard adjustment of three notches below the anchor for banks operating in the country. This adjustment reflects NBFIs' lack of access to the central bank's credit lines, lower regulatory oversight, and higher competitive risk than for banks. The trend for economic risk in Chile's BICRA is still negative, reflecting downside risks on economic growth and investment as result of the ongoing constitutional amendments, pension system reform, and social pressures.

Business Position: Good Business And Income Diversification And Solid Market Position In Its Core Segments

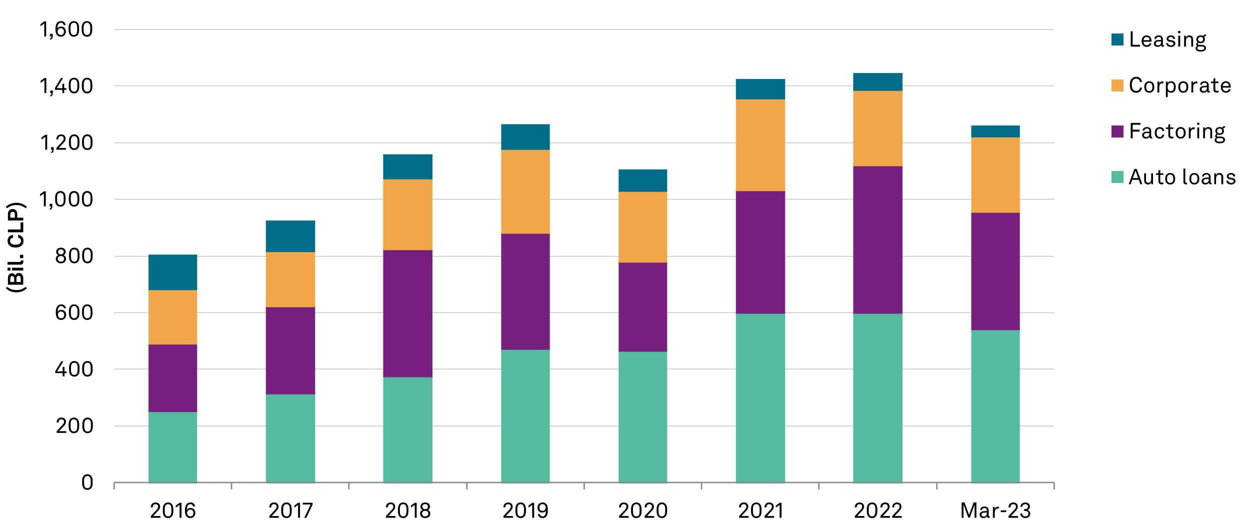
Tanner benefits from business diversification and a sound market position in its core bussiness segments. The entity is the largest Chilean NBFI in the factoring segment, ranking fourth (including banks) with 8.5% market share, and it ranks third in the auto loan industry with 8.6% market share.

The entity's underwritting in different business lines--factoring, auto loans, corporate credit, and leasing--provides a sustainable revenue base because Tanner can shift growth to products and sectors with better prospects throughout the business cycle. Auto loans made up 42% of the credit portfolio as of December 2022, factoring 35%, corporate loans 18%, leasing 4%, and other 1%.

In our view, Tanner's loan portfolio is more diversified than those of its peers in the NBFI industry, which mostly focus on one specific segment. Tanner's subsidiaries--Tanner Corredores de Bolsa (security firm), Tanner Investments (security firm), and Tanner Corredora de Seguros (insurance brokerage)--also help diversify the company's business lines and revenue.

Chart 1

Tanner's loan portfolio is diversified



CLP--Chilean peso. Source: S&P Global Ratings.

Tanner's loan portfolio growth has been flat so far in 2023. While factoring growth remains healthy thanks to persistent liquidity needs from customers, the company's adoption of more conservative underwriting policies is limiting the growth of auto and corporate loans.

In addition, Tanner is no longer underwriting auto loans financing Nissan cars sales after the joint venture Nissan-Tanner Financial Services with Nissan started to operate in August 2022. Tanner owns a 49% stake and Nissan Chile SpA the remaining 51%. This has also pressured Tanner's growth in recent months. We therefore believe Tanner's stock of loans will remain flat this year.

Tanner's net interest margins improved in 2022, thanks to higher interest on the loan portfolio amid tighter monetary policy in Chile. However, higher provisioning as result of increasing credit risks, in particular in the auto loans industry, somewhat pressured the entity's profitability. Return on equity (ROE) fell to 8.0% last year from 10.9% in 2021.

We expect ROE to decline to -1% - 3% this year, but normalize in 2024-2025. We believe the expertise of Tanner's management will continue to help it generate adequate earnings in upcoming years despite profits falling this year as Tanner prepares for its reorganization. The entity is increasing its stock of credit loss provisions, aligning underwriting and collection models, and reinforcing the management team and operational processes, among other measures.

Capital And Earnings: Solid Capitalization Helps Tanner Absorb Losses In Stress Events

We expect our risk-adjusted capital ratio (RAC) for Tanner to average 17% in 2023-2025, allowing the company to withstand hypothetical higher credit losses during distressed scenarios. We expect Tanner to continue to support its asset growth by building up earnings and with its conservative dividend policy.

Our base-case scenario incorporates the following assumptions:

- Flat real GDP growth for Chile in 2023, but average growth of 2.6% in 2024-2025;
- Unemployment to remain high at about 8% in 2023-2025;
- Muted gross loan portfolio growth in 2023, but averaging 10% in 2024-2025;
- Nonperforming assets (NPAs) ratio to remain 5%-6% this year, but fall below 5% afterward, and reserves to cover roughly 70% of NPAs;
- ROE to fall to minus 1% - 3% this year, but average 8% in 2024-2025; and
- Moderate dividend payments.

Tanner has adequate quality of capital because its capital base mostly consists of common equity. The NBFI has historically maintained good profitability, with ROE of about 8%-11% over the last few years.

Risk Position: Asset Quality Is Under Pressure, But Guarantees Provide Some Cushion

Tanner has higher exposure to more vulnerable and cyclical sectors--through its lending to small and midsize enterprises, factoring operations, and auto loans--compared to the domestic financial industry.

Over the past few years, Tanner has implemented stricter underwriting standards for new loans and enacted stronger monitoring and collection procedures. In addition, Tanner has been focusing on first-option financing and new cars in its auto loans segment, which has improved asset quality. Furthermore, withdrawals of pension funds and other government support measures supported better asset quality in 2020 and 2021, with NPAs of roughly 2.6% compared to 3.7% in 2019.

However, normalizing liquidity in the economy and higher economic risks have been pressuring asset quality since 2022 and so far in 2023, with NPAs around 5%-6%. Muted growth in the loan portfolio and the spin off of Nissan operations--which carry lower-than-average credit risks within the auto loan segment--also caused the Tanner's NPAs to increase during the last few months.

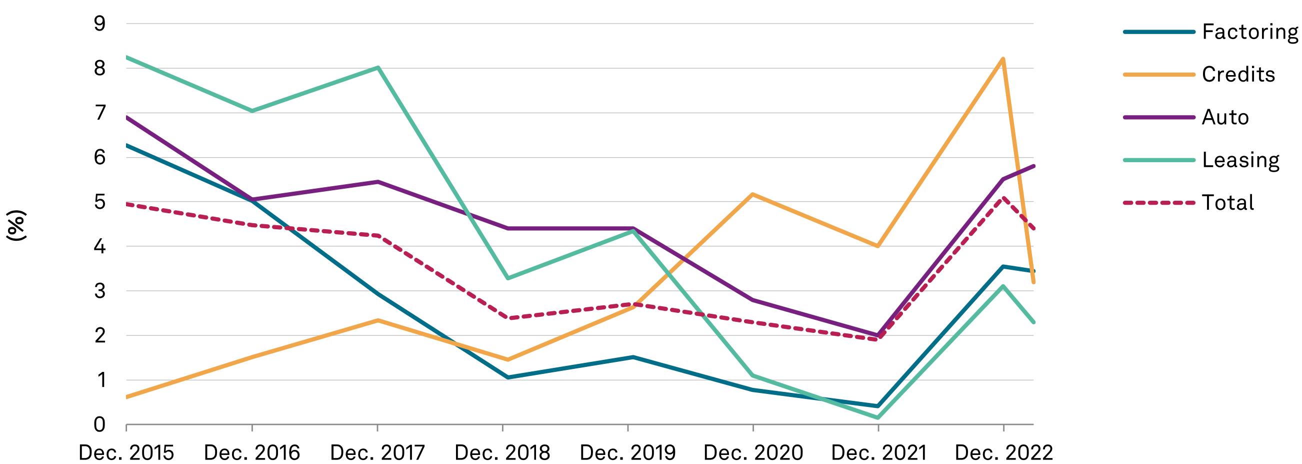
We expect NPAs will remain at similar levels for the rest of 2023. We anticipate the more stringent underwriting practices adopted in recent quarters for auto and corporate lending will start to pay off in 2024, causing NPAs to improve to 4%-5%.

We continue to monitor a few large problematic corporate loans (recently renegotiated) that made NPAs volatile in past months. Although some of the cases could take more than a year to resolve due to lengthy legal processes, we believe there are good prospects for recovery considering both the quality and quantity of guarantees.

Overall, Tanner has adequate levels of guarantees in its portfolio, which help keep credit losses maneageable. However, Tanner has some concentration risk: its top 20 exposures represent about 16% of total loans and 0.7x of equity.

Chart 2

Tanner's nonperforming loans per segment



Source: S&P Global Ratings.

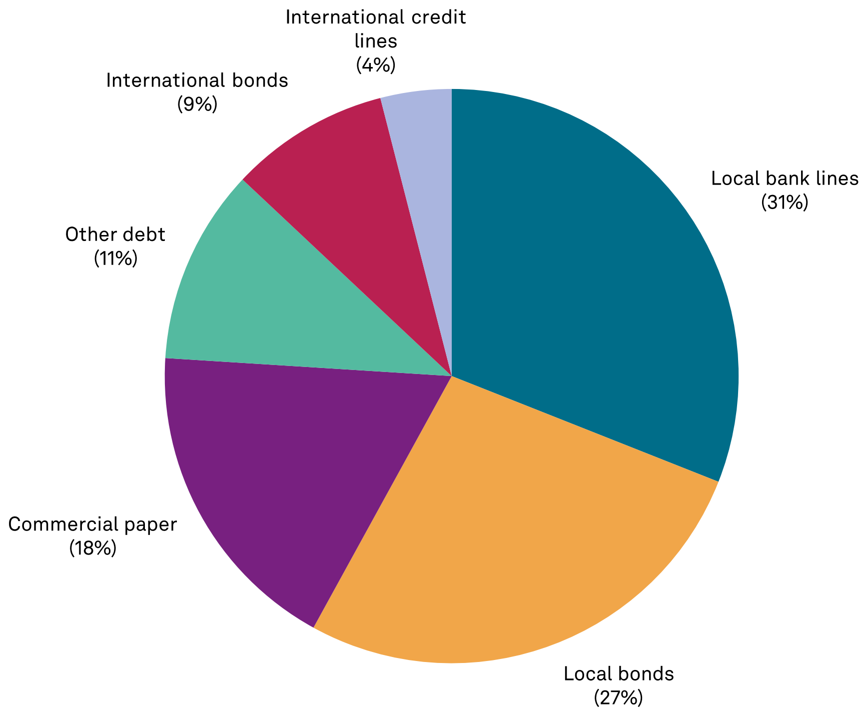
Funding And Liquidity: Diversified Funding Base And Adequate Liquidity Management

Tanner has a well-diversified funding base compared to peers, regular access to multiple sources of debt, and has been able to succesfully manage its debt maturity profile. Its stable funding ratio is below 60%; however, the mix of international and national bonds, loans from foreign and domestic banks, and commercial paper helps offset the low ratio.

Tanner has a substantial amount of approved banking lines, frequently issues in the domestic market, and has access to international funding through multilateral lines and cross-border issuances. Market debt, including commercial paper and bonds in local and international markets, accounts for 54% of the company's total funding, while the remainder consists mainly of local bank lines and international lending institutions.

Chart 3

Tanner's funding structure
As of March 2023



Source: S&P Global Ratings.

Tanner is consistently looking for new funding sources and new investors to keep its funding base diversified. While the company has issued new commercial paper totaling roughly Chilean peso (CLP) 600 billion so far this year to support growth in factoring, it's working on refinancing debt coming due in 2024--something that we are monitoring.

In our opinion, Tanner has adequate liquidity management and adequate procedures in place to preserve liquidity under stressed conditions. The company has a conservative financing strategy--it plans for liquidity needs several quarters in advance. We also forecast positive cash flow under our base-case and stress-test scenarios, considering the shorter duration of assets than liabilities and the company's multiple funding sources.

Support: No Uplift To The SACP

Our rating on Tanner is at the same level as its 'bbb-' stand-alone credit profile (SACP) because the company doesn't benefit from external support. Tanner's ultimate parent is Inversiones Bancarias (not rated)--the subsidiary represents 98% of the holding company's consolidated assets. Inversiones Bancarias owns 73% of Tanner's equity. Through Inversiones Bancarias and other companies, Grupo Massu controls 82% of Tanner. Inversiones Bancarias does not carry any debt.

Ratings Score Snapshot

Issuer credit rating	BBB-/Negative/--
SACP	bbb-
Anchor	bb+
Business position	Adequate (0)
Capital and earnings	Very strong (+2)
Risk position	Moderate (-1)
Funding and liquidity	Adequate and Adequate (0)
Comparable rating analysis	0
Support	0
GRE support	0
Group support	0
Government support	0
Additional factors	0

Key Statistics

Table 1

Tanner Servicios Financieros S.A.--Business position

		--Year ended Dec. 31--			
(Mil. CLP)	**2023***	**2022**	**2021**	**2020**	**2019**
Total assets	1,791,061	1,797,289	1,793,307	1,465,796	1,610,668
Gross receivables	1,322,103	1,507,328	1,465,993	1,145,528	1,261,482
Operating revenues	27,012	122,555	109,903	103,092	116,538
Net income after extraordinaries	1,384	28,524	36,142	27,511	32,597
Net interest margin (%)	8.8	9.29	8.64	9.38	9.55

*Data as of March 31. CLP--Chilean peso.

Table 2

Tanner Servicios Financieros S.A.--Capital and earnings

		--Year ended Dec. 31--			
(%)	**2023***	**2022**	**2021**	**2020**	**2019**
Debt/ATE (x)	3.22	3.21	3.52	3.03	3.55
Adjusted common equity/total adjusted capital	100	100	100	100	100
Noninterest expenses/operating revenues	51.05	45.37	46.8	44.72	39.52
Net interest income/operating revenues	123.58	121.76	112.71	119.36	108.77
Return on average assets	0.31	1.59	2.22	1.79	2.15

*Data as of March 31.

Table 3

Tanner Servicios Financieros S.A.--Risk position

		--Year ended Dec. 31--			
(%)	**2023***	**2022**	**2021**	**2020**	**2019**
Nonperforming assets/receivables + other real estate owned	5.07	5.93	2.56	2.73	3.70
Net charge-offs/average gross receivables	2.53	0.74	1.05	2.04	2.03
New loan loss provisions/average gross receivables	3.72	2.97	1.52	2.00	2.60
Loan loss reserves/gross receivables	4.17	3.40	1.70	1.99	2.26
Loan loss reserves/gross nonperforming assets	79.91	56.95	66.02	72.74	60.54

*Data as of March 31.

Table 4

Tanner Servicios Financieros S.A.--Funding and liquidity

		--Year ended Dec. 31--			
	2023*	**2022**	**2021**	**2020**	**2019**
Stable funding ratio (%)	51.78	52.6	55.36	65.78	51.28
Liquidity coverage metric (x)	0.13	0.11	0.2	0.34	0.17

*Data as of March 31.

Related Criteria

- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings Detail (As Of September 8, 2023)*	
Tanner Servicios Financieros S.A.	
Issuer Credit Rating	BBB-/Negative/--
Senior Unsecured	BBB-
Issuer Credit Ratings History	
03-Apr-2020	BBB-/Negative/--
22-Aug-2018	BBB-/Stable/--
04-Aug-2017	BBB-/Negative/--
Sovereign Rating	
Chile	
Foreign Currency	A/Stable/A-1
Local Currency	A+/Stable/A-1

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.