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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 losses during distressed scenarios.	Chile's macroeconomic and political woes could erode domestic business conditions and capital adequacy.
Diverse business and revenue base relative to Chilean nonbank financial institutions (NBFIs).	Lending strategy focused on cyclical sectors and a few problematic loans create volatility to asset quality.
Healthy liquidity management and diversified funding base compared with local NBFIs, although it relies on wholesale funding.	

We expect Tanner to maintain sound capitalization and low leverage. The entity also benefits from good business diversification and market positioning in the factoring and auto loan segments, which are its core businesses.

The company's asset quality metrics will remain strained over the next few months, in our view. High credit risks on previously written auto loans and a few problematic corporate loans are dampening the company's asset quality, although we think the recovery prospects are good.

We believe Tanner will continue to rely on wholesale funding. However, it keeps a diverse funding base, with different sources and manageable maturity profile, and proactive asset-liability management, maintaining adequate liquidity to meet its short- term needs.

Tanner's ongoing restructuring doesn't immediately affect its creditworthiness, 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 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. We could also 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 (see "Banking Industry Country Risk Assessment: Chile," Oct. 31, 2023). The trend for economic risk in Chile's BICRA is still negative, reflecting the risk that political impasses could persist, preventing agreement on meaningful legislation to strengthen economic prospects and investment. Weaker economic prospects could further pressure asset quality metrics and banks' operating performance.

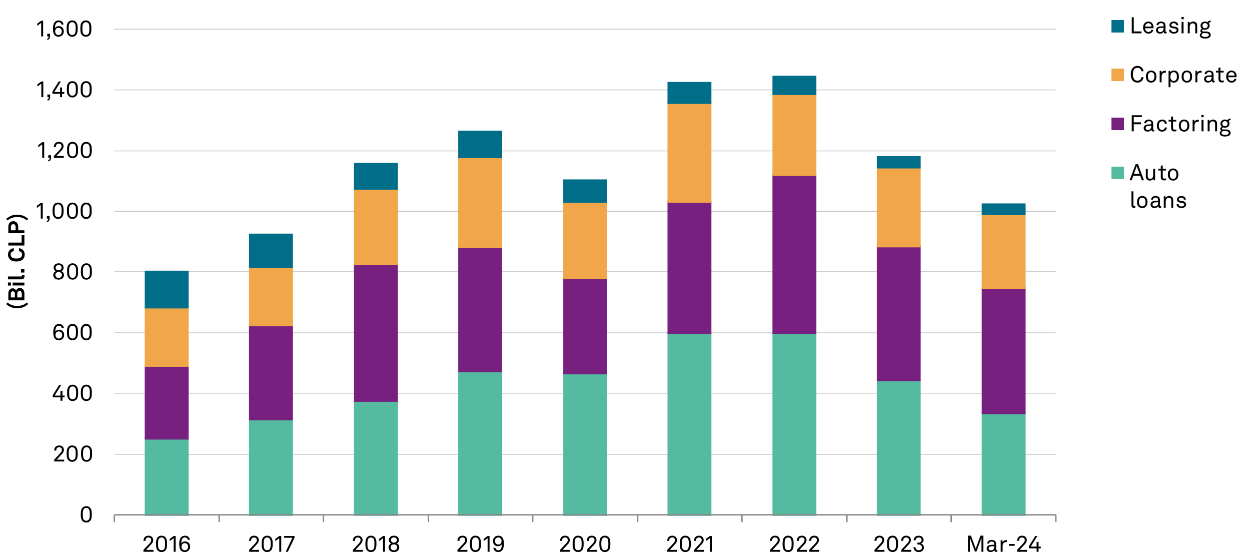
Business Position: Good Business And Income Diversification, Solid Market Position In Its Core Segments

Tanner benefits from business diversification and a sound market position in its core business segments. The entity is the largest Chilean NBFI in the factoring segment, ranking fifth (including banks) with 7% market share, and it ranks third in the auto loan industry with 13% market share. Auto loans made up 44% of the credit portfolio as of March 2024, factoring 29%, corporate loans 24%, and leasing 3%.

The entity's underwriting in different business lines is a sustainable revenue base because Tanner can shift growth to products and sectors with better prospects throughout the business cycle. In our view, Tanner's loan portfolio is more diversified than those of its peers, who mostly focus on one specific segment. Tanner's subsidiaries--Tanner Corredores de Bolsa (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 decreasing since 2023. While factoring growth remains stable thanks to continued liquidity needs from customers, adopting more conservative underwriting policies limits its auto and corporate loans from growing. In addition, Tanner is no longer underwriting auto loans financing Nissan cars sales after the joint venture Nissan-Tanner Financial Services with Nissan started operating in August 2022. We therefore believe Tanner's stock of loans will remain flat this year, but it should restart growth in 2025 following the end of calibration of new originations.

As expected, Tanner's return on equity (ROE) fell to 0.6% in 2023, from 8.0% in 2022, as a result of higher funding costs amid high interest rates, muted growth of interest income due to lowering stock of loans, and higher provisioning because of increasing credit risks in the country. Some non-recurrent expenses following Tanner's corporate restructure, including adjusting the stock of credit loss provisions, aligning underwriting and collection models, and reinforcing the management team and operational processes to accommodate banking standards, have also weighed on earnings since last year.

Although cost of funding is decreasing in the middle of an easy monetary policy and because the market pricing already started to reflect the entity's transitioning to a banking model, we expect profits to remain low this year because of limited loan underwriting and some additional expenses due to the corporate reorganization. However, profitability should start normalizing in 2025-2026 once enhancements on the credit risk framework and the transitioning to a banking model conclude. We think the expertise of Tanner's management will help it generate adequate earnings in upcoming years, despite recent weak results, as the group prepares for its reorganization.

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

We expect our risk-adjusted capital ratio (RAC) for Tanner to average 16% in 2024-2026, allowing the company to withstand hypothetical higher credit losses during distressed scenarios. We expect Tanner to continue to support its asset growth by growing earnings and with its conservative dividend policy.

Our base-case scenario incorporates the following assumptions:

- Chile's real GDP to grow 2.0%-3.0% annually in 2024-2026.
- Average monetary policy lowering to 6.0% this year, and to about 5.0% afterwards.
- Unemployment to remain relatively high at 8.3% this year, but reaching pre-pandemic levels by 2026.
- Tanner's muted gross loan portfolio growth in 2024, but averaging 10% in 2025-2026;
- Nonperforming assets (NPAs) ratio to remain 5%-7% this year, but fall below 5% afterward, and reserves to cover roughly 70% of NPAs;
- ROE to fall to increase slightly to about 2% this year, but recovering progressively in 2025-2026; and
- Moderate dividend payments.

Tanner has adequate quality of capital because its capital base largely consists of common equity and retaining profits.

Risk Position: Asset Quality 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 with the domestic financial industry. Lower liquidity in the economy and higher economic risks have been pressuring Tanner's asset quality since 2022. The lower stock of loans due to conservative new underwriting and the spin off of Nissan operations--which carry lower-than-average credit risks within the auto loan segment--also caused Tanner's NPAs ratio to increase up to 6.8% as of March 2024, compared with roughly 3% three years ago.

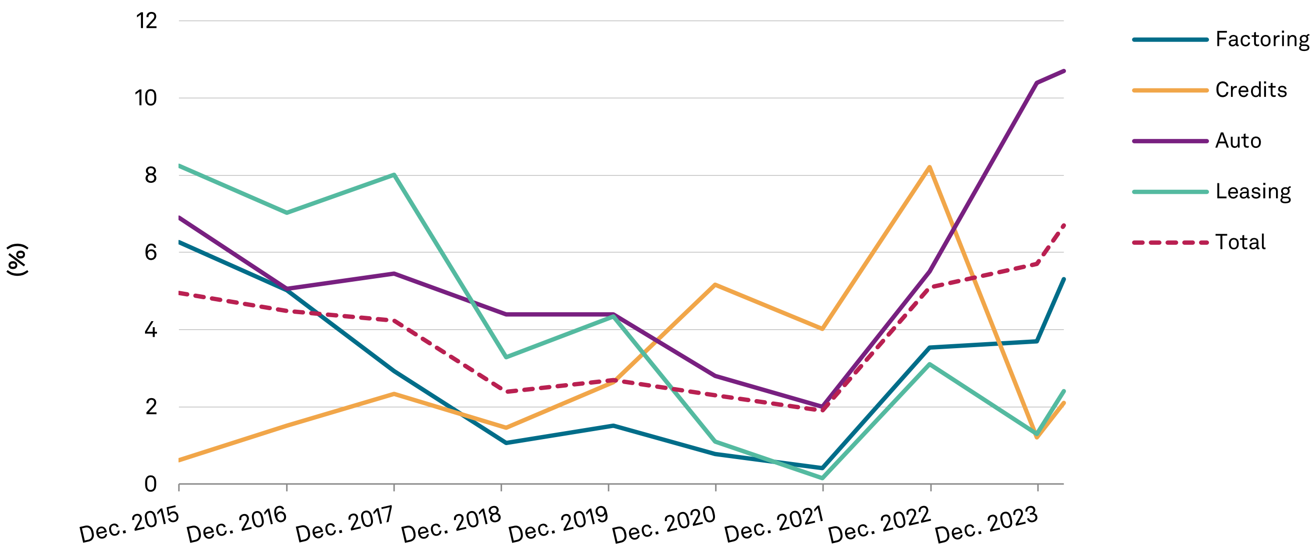
We expect NPAs will remain at similar levels for the remainder of the year. However, stricter underwriting standards for new auto and corporate lending and stronger monitoring and collection procedures should start to pay off soon, which, along with loan stock growth restart, would cause NPAs ratio to improve to 4%-5% in 2025-2026.

We continue to monitor a few large problematic corporate loans that make NPAs volatile over time. Although some of the cases could take more than a year to resolve due to lengthy legal processes, we think there are good prospects for recovery considering the quality and quantity of guarantees.

Overall, Tanner has adequate levels of guarantees in its portfolio, which help keep credit losses manageable. However, the entity has some concentration risk; its top 20 exposures represent about one-fifth of total loans and 0.7x of equity.

Chart 2

Tanner's nonperforming loans per segment



Source: S&P Global Ratings.

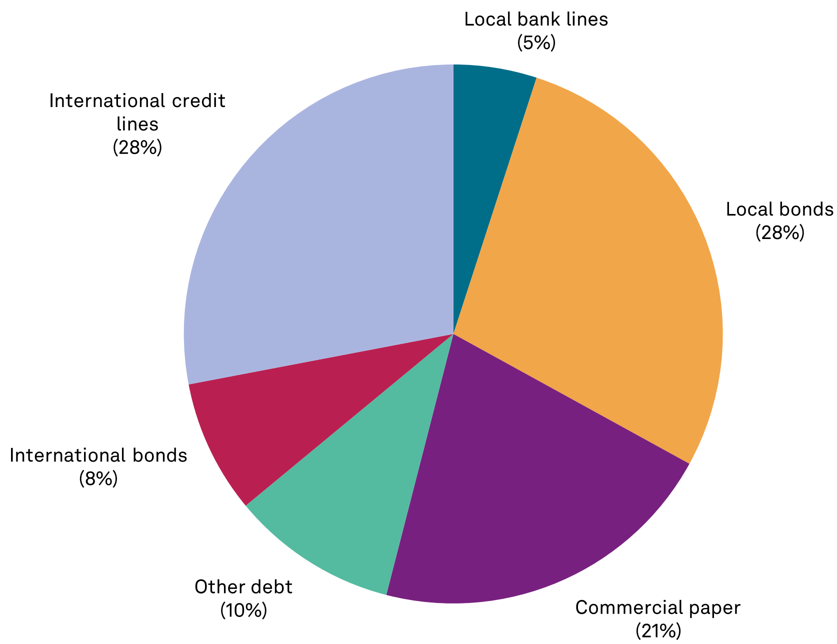
Funding And Liquidity: Diversified Funding Base And Adequate Liquidity Management

Tanner has a well-diversified funding base compared with peers, regular access to multiple sources of debt with a good mix of international and national bonds, loans from foreign and domestic banks, and commercial paper. It has records of successful asset-liability management.

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. The entity consistently looks for new funding sources and new investors to keep its funding base diversified. It recently raised USD150 million through a syndicated credit in the international market to help repay debt that expired during the second quarter of this year, including the Switzerland bonds. The entity's debt maturity profile looks very manageable for 2024-2025.

Chart 3

Tanner's funding structure
As of March 2024



Source: S&P Global Ratings.

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 as it plans for liquidity needs several quarters in advance. We forecast positive cash flow under the base-case and our stress-test scenarios, thanks to the shorter duration of assets than liabilities and the company's multiple liquidity 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 nearly 100% of the holding company's consolidated assets. Inversiones Bancarias owns 70.45% of Tanner's equity. Through Inversiones Bancarias and other companies, Grupo Massu controls 82% of Tanner. Inversiones Bancarias does not carry significant levels of 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

Tanner Servicios Financieros S.A.					
		'--As of Dec. 31--			
	Mar-24	2023	2022	2021	2020
BUSINESS POSITION					
Total assets	1,781,517	1,728,401	1,797,289	1,793,307	1,465,796
Gross receivables	1,078,545	1,242,816	1,507,328	1,465,993	1,145,528
Operating revenues	27,065	106,781	122,555	109,903	103,092
Net income after extraordinaries	1,322	2,099	28,524	36,142	27,511
Net interest margin (%)	9.08	8.73	9.29	8.64	9.38
CAPITAL & EARNINGS					
Debt/ATE (x)	3.20	2.95	3.21	3.52	3.03
Adjusted common equity/total adjusted capital (%)	100.00	100.00	100.00	100.00	100.00
Noninterest expenses/operating revenues (%)	58.84	56.20	45.37	46.80	44.72
Net interest income/operating revenues (%)	119.59	121.97	121.76	112.71	119.36
Return on average assets (%)	0.30	0.12	1.59	2.22	1.79
RISK POSITION					
Growth in gross receivables (%) (YoY)	(18.42)	(17.55)	2.82	27.98	(9.19)
Nonperforming assets/receivables + other real estate owned (%)	6.81	5.85	5.93	2.56	2.73
Net charge-offs/average gross receivables (%)	3.23	3.33	0.74	1.05	2.04
New loan loss provisions/average gross receivables (%)	3.70	3.76	2.97	1.52	2.00
Loan loss reserves/gross receivables (%)	4.72	4.13	3.40	1.70	1.99
Loan loss reserves/gross nonperforming assets (%)	67.28	68.69	56.95	66.02	72.74

FUNDING & LIQUIDITY					
Stable funding ratio (%)	45.43	46.49	52.60	55.36	65.78
Liquidity coverage metric (x)	0.13	0.12	0.11	0.20	0.34

Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- 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
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings Detail (As Of September 3, 2024)*	
Tanner Servicios Financieros S.A.	
Issuer Credit Rating	BBB-/Negative/--
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/Negative/A-1
Local Currency	A+/Negative/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.