S&P Global Ratings

RatingsDirect®

Tanner Servicios Financieros S.A.

Primary Credit Analyst:
Camilo Andres Perez, Mexico City + 52 55 5081 4446; camilo.perez@spglobal.com

Secondary Contact:
Ivana L Recalde, Buenos Aires + 54 11 4891 2127; ivana.recalde@spglobal.com

Table Of Contents

Tanner Servicios Financieros S.A.

Credit Highlights

Issuer Credit Rating
BBB-/Negative/--

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 its asset quality.
Healthy liquidity management and diversified funding base compared with other local NBFIs, altough it's fully composed of wholesale funding.	

Our 'BBB-' rating on Tanner reflect its good intrinsic creditworthiness. However, higher economic risks in Chile, along with their potential adverse effects on the entity's operating conditions and pressures on asset quality, result in a negative outlook on the company.

Tanner's stand-alone credit profile (SACP) remains 'bbb-'. The SACP reflects its sound capitalization and low leverage, along with good bussiness diversification and market positioning in the factoring and auto loan segments, which are its core businesses. In addition, although Tanner relies on wholesale funding, it benefits from a diverse funding base and proactive asset-liability management, while it keeps adequate liquidity to meet its needs. On the other hand, a few problematic corporate loans are dampening the company's asset quality, although we think it has good recovery prospects.

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, and/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 all Tanner's other intrinsic 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," published July 26, 2022). 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.

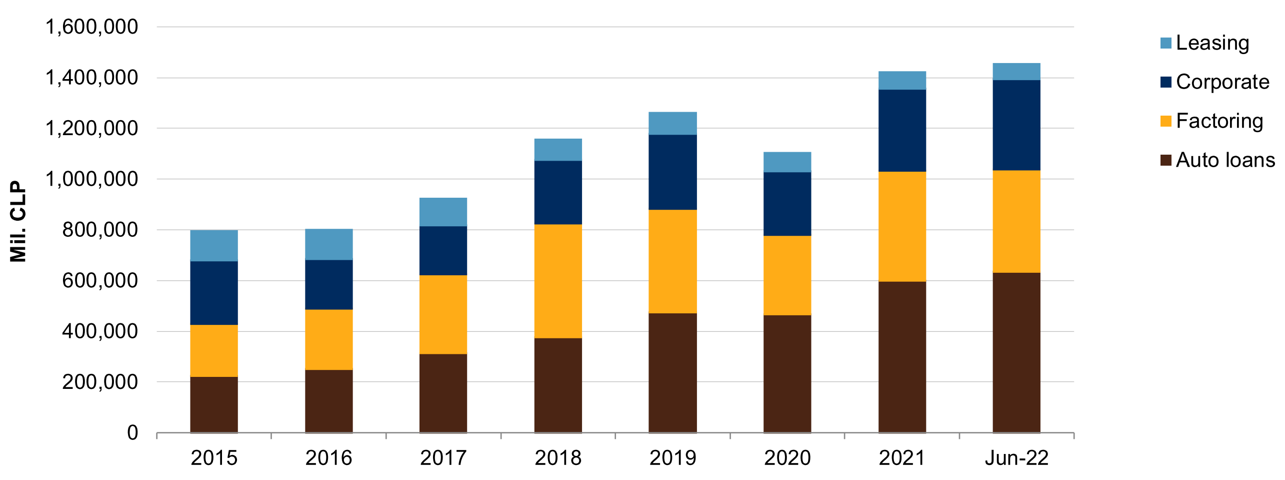
Business Position: Good Business And Income Diversification And Solid Market Position In Its Core Segments

Tanner benefits from business diversification and sound market position in the factoring and auto loan business lines, which are its core businesses. The entity is the largest Chilean NBFI in the factoring segment, ranking fifth (including banks) with about 8% of market share, and it ranks third in the auto loan industry.

The entity's underwritting in different business lines--factoring, auto loans, corporate credit, and leasing--provides a sustainable revenue base because it's able to shift growth to products and sectors with better prospects throughout the business cycle. Tanner's loan portfolio is composed of auto loans (44%), factoring (28%), corporate loans (24%), and leasing loans (4%) as of June 2022. In our view, Tanner's loan portfolio is more diversified than those of its peers, which mostly focus on one specific segment.

Chart 1

Tanner's Diversified Loan Portfolio



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

The company's loan portfolio grew 28% in 2021 and 23% (annually) as of June 2022, mostly due to solid rebound in the factoring and auto loans segment after the hit in 2020 due to the pandemic. Underwriting of auto loans under the Tanner-Nissan exclusive agreement to finance Nissan car sales has been one of the main growth drivers during the past two years, which also has helped Tanner strengthen its competitive position in the Chilean auto loan segment and grow its participation in first-option financings. More recently, Tanner and Nissan created a joint venture company (Tanner owns a 49% stake and Nissan the remaining 51%) that is underwriting all loans financing Nissan cars starting July 2022, while Nissan loans that Tanner issued before are in run-off. Thus, we expect Tanners's total credit portfolio to grow 9%-11% this year.

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.

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

We expect our risk-adjusted capital ratio (RAC) for Tanner to average 18.2% in 2022-2024, which helps the company face hypothetical higher credit losses during disstressed scenarios. We expect Tanner to continue supporting its asset growth through its good capacity to build up earnings and a conservative dividend policy. Chile's challenging political situation has led us to revise our economic risk trend in the country's BICRA to negative. If the higher economic risks in the country materialize, our capital model risk weights would increase to reflect the higher credit risks. However, we think Tanner's high RAC ratio would allow it to cope with potentially higher risks and to maintain sound capitalization according to our capital framework.

Our base-case scenario incorporates the following assumptions for 2022-2024:

- Chile's real GDP growth of 2.1% in 2022, 1.3% in 2023, and 2.7% in 2024.
- Unemployment to remain high at 7.8% in 2022-2024.
- Tanner's gross loan portfolio growth to average 7%-10% per year.
- Nonperforming loans (NPLs) ratio to increase up to 5%-6% this year, but to stabilize at about 3% in 2023-2024, and reserves to cover more than 70% of NPLs.
- Return on average assets (ROAA) to average 2.1%.
- 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 ROAA at about 2.2% over the last few years.

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

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

Over the years, Tanner has implemented stricter underwriting standards for new loans and enacted stronger monitoring and collection procedures. In addition, in its auto loans segment Tanner has been focusing on first-option financing and new cars, which substantially improved asset quality in this segment. In addition, withdrawals of pension funds and other government support measures further improved asset quality in 2020 and 2021.

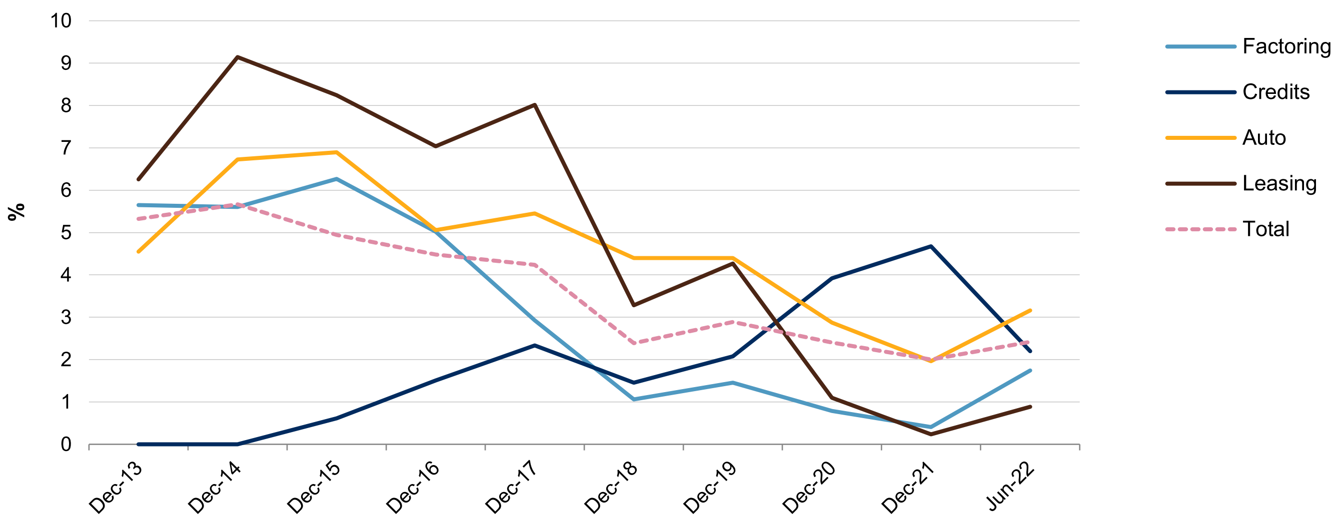
However, the return to normal of liquidity in the economy and higher economic risks have pressured NPLs in the first half of 2022, and we expect further pressure during the second half due to two large problematic corporate loans. Thus, we think the NPLs ratio could reach up to 5% to 6% this year, but will recover in 2023-2024 once Tanner resolves the cases. In our view, there are good prospects for recovery of NPLs considering both the quality and quantity of guarantees.

Overall, Tanner has adequate levels of guarantees in all of its portfolio, which help keep credit losses maneageable. However, Tanner has some concentration risk: the top 20 largest exposures represent about 20% of total loans and 0.8x its equity.

Chart 2

Tanner's NPLs Ratio

NPLs per segment



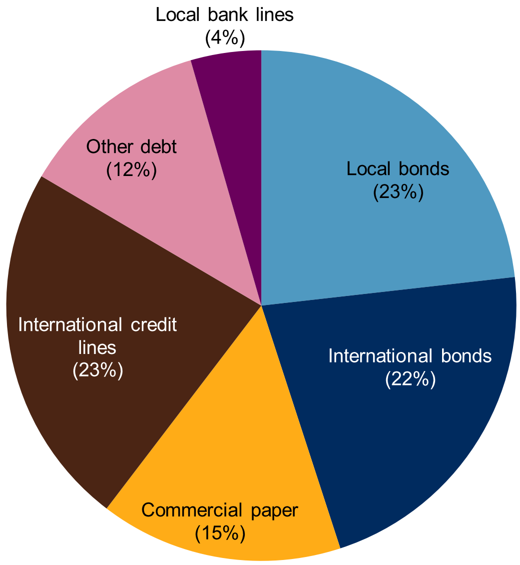
Source: S&P Global Ratings.

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 a manageable debt maturity profile. Its stable funding ratio is below 90%; however, the mix of international and national bonds, loans from foreign and domestic banks, and commercial paper help 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 60% 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 June 2022



Source: S&P Global Ratings.

Tanner is consistently looking for new funding sources and new investors to keep a diversified funding base. In the first half of this year, the company issued bonds for $105 million in the local market, new commercial papers totaling $450 million, and raised a syndicated loan with several international banks. Tanner's next significant maturity is this November, but the company has already booked the resources to honor it.

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. Our liquidity assessment incorporates our forecast of positive cash flow under our base-case and stress-test scenarios, considering the shorter duration of assets than liabilities and multiple funding sources.

Support: No Uplift To The SACP

Our rating on Tanner is at the same level as its 'bbb-' SACP because the company doesn't benefit from external support from either the government or the group.

Tanner's ultimate parent is Inversiones Bancarias (not rated)--the subsidiary represents 98% of the holding company's consolidated assets. Inversiones Bancarias owns 51% of Tanner's equity. In 2019, The Capital Group (not rated; minority shareholder with 27% participation) began the process of selling its stake in Tanner's equity, but this hasn't been completed yet. However, the potential exit of Capital Group wouldn't affect our ratings on Tanner. This is because we don't include any extraordinary support in our rating, because the fund only holds a minority portion of Tanner's equity.

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)	**2022***	**2021**	**2020**	**2019**	**2018**
Total assets	1,960,937.1	1,793,307.4	1,465,796.3	1,610,668.1	1,427,546.2
Gross receivables	1,500,778.4	1,465,992.9	1,145,528.4	1,261,482.1	1,156,635.9
Operating revenues	63,832.9	109,902.8	103,091.9	116,537.6	105,861.6
Net income after extraordinaries	19,673.0	36,141.9	27,510.9	32,597.4	29,737.8
% Change in operating revenue	15.2	6.6	(11.5)	10.1	17.2
Net interest margin (%)	9.2	8.6	9.4	9.5	10.4

*Data as of June 30. CLP--Chilean peso.

Table 2

Tanner Servicios Financieros S.A.--Capital And Earnings					
	--Year-ended Dec. 31--				
	2022*	**2021**	**2020**	**2019**	**2018**
Debt/ATE (x)	3.8	3.5	3.0	3.6	3.5
Adjusted common equity/total adjusted capital (%)	100.0	100.0	100.0	100.0	100.0
Noninterest expenses/operating revenues (%)	44.4	46.8	44.7	39.5	41.8
Net interest income/operating revenues (%)	120.6	112.7	119.4	108.8	111.3
Fee income/operating revenues (%)	(21.5)	(12.6)	(17.9)	(11.3)	(13.4)
Return on average assets (%)	2.1	2.2	1.8	2.1	2.3
Core earnings/average managed assets (%)	2.1	2.2	1.8	2.1	2.3
Common + preferred dividends/net income (%)	55.0	22.7	35.0	27.0	24.9

*Data as of June 30.

Table 3

Tanner Servicios Financieros S.A.--Risk Position					
	--Year-ended Dec. 31--				
	2022*	**2021**	**2020**	**2019**	**2018**
Growth in gross receivables (%) (YoY)	23.4	28.0	(9.2)	9.1	25.4
Nonperforming assets/receivables + other real estate owned (%)	3.2	2.6	2.7	3.7	3.1
Net charge-offs/average gross receivables (%)	0.9	1.0	2.0	2.0	2.7
New loan loss provisions/average gross receivables (%)	2.4	1.5	2.0	2.6	2.7
Loan loss reserves/gross receivables (%)	2.3	1.7	2.0	2.3	2.3
Loan loss reserves/gross nonperforming assets (%)	70.6	66.0	72.7	60.5	75.3

*Data as of June 30.

Table 4

Tanner Servicios Financieros S.A.--Funding And Liquidity					
	--Year-ended Dec. 31--				
	2022*	**2021**	**2020**	**2019**	**2018**
Stable funding ratio (%)	59.9	55.4	65.8	51.3	55.5
Liquidity coverage metric (x)	0.2	0.2	0.3	0.2	0.2

*Data as of June 30.

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 1, 2022)*	
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.