MOODY'S

Rating Action: Moody's affirms Hoist Finance's Baa3 senior unsecured ratings, outlook changes to positive

28 Nov 2023

Stockholm, November 28, 2023 -- Moody's Investors Service ("Moody's") today affirmed Hoist Finance AB (publ)'s (Hoist) ratings, including its Baa3/P-3 long- and short-term Counterparty Risk Ratings (CRR), the Baa3 senior unsecured debt ratings, the Baa3/P-3 long- and short-term issuer ratings, senior unsecured MTN program (P)Baa3 ratings, the junior senior unsecured MTN program (P)Ba2 ratings, the subordinate MTN program (P)Ba3 rating and the subordinate Ba3 rating. The Baseline Credit Assessment (BCA) and Adjusted BCA were affirmed at ba3, and the long- and short-term Counterparty Risk Assessments (CRA) were affirmed at Baa3(cr)/P-3(cr). The outlooks on the long-term issuer ratings and senior unsecured debt ratings were changed to positive from negative.

The affirmation of the senior ratings reflect firstly the BCA of ba3 incorporating the company's regulated nature, with prudent capital and liquidity requirements, which provide stability and predictability, balanced against a lackluster financial performance during the pandemic, with high impairments and limited new business. Secondly, the ratings incorporate a three notch uplift due to the large volumes of loss absorbing liabilities protecting senior debt holder in case of failure.

While the recent stabilization in leadership is a positive development, risks of governance failures remain elevated , with the governance Issuer Profile Score under Moody's Environmental, Social and Governance (ESG) framework remaining at G-4. Consequently, the BCA continues to incorporate a negative corporate behaviour adjustment, and this is also reflected in a Credit Impact Score remains of CIS-4.

The change in outlook to positive on the long-term senior unsecured debt and Issuer ratings from negative reflects both the improvements to management credibility and Hoist's comparative strength in an operating environment with higher interest rates due to its access to insured retail deposits, which results in lower funding costs compared to other debt purchasers.

RATINGS RATIONALE

BASELINE CREDIT ASSESSMENT

The ba3 BCA reflects Hoist's franchise as a debt purchaser and its regulated status, with prudent requirements on capitalization and liquidity management. Following the arrival of the new CEO in at the beginning of 2023 the bank's strategy has been cemented, with greater focus on delivering cost efficiency and increased accountability throughout the organisation. Paired with an operating environment where increasing interest rates increases focus on refinancing risks, Hoist is well placed within the debt purchasing industry due to its access to granular retail deposits, which are less costly than market funding, and do not pose the same type of refinancing hurdles.

SENIOR RATINGS

The Baa3 senior unsecured debt and long-term Issuer ratings reflect the ba3 BCA and the extremely low loss given failure, as indicated by Moody's Advanced Loss Given Failure (LGF) analysis. Hoist holds very large buffers of subordinated liabilities, which provides ample loss absorptions buffers to senior creditors in case of a failure. Moody's assumes that a failure would be orderly in order to protect depositors, thus containing the loss rates as fire sales would be avoided.

OUTLOOK

The positive outlook on Hoists long-term senior unsecured debt and issuer ratings considers the company's improving performance with stronger earnings and higher capitalization. The higher interest rate environment is a comparative advantage for Hoist compared to other debt purchasers, due to the company's ability to take retail deposits. This benefit will allow Hoist to grow in a market where other debt purchasers need to deleverage their balance sheets, thus also placing Hoist in a strong position to win attractive portfolios.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

An upgrade of the ratings could be triggered by: (1) improving recurring profitability, (2) maintaining adequate capital levels above regulatory requirements, (3) not expanding into riskier assets or jurisdictions, and (4) minimizing conduct risk and ad hoc provisions.

Hoist's BCA could be downgraded if (1) substantive changes to strategy or management are made, (2) its recurring profitability falls, (3) its capital decreases, (4) its reliance on market funding materially increases; or (5) our assessment of Hoist's asset risk deteriorates.

In terms of the issuer, senior unsecured, junior senior unsecured MTN program and subordinated debt ratings, a downward movement is likely in the event of a downgrade of Hoist's BCA or a lower notching from our Advanced LGF analysis.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at https://ratings.moodys.com/rmc-documents/71997. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the issuer/deal page for the respective issuer on https://ratings.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website https://ratings.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1355824.

The Global Scale Credit Rating(s) discussed in this Credit Rating Announcement was(were) issued by one of Moody' affiliates outside the UK and is(are) endorsed for use in the UK in accordance with the UK CRA Regulation.

Please see https://ratings.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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