

Eurolease Auto

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CREDIT RATING	Initial rating	Monitoring	Update
Date of Rating Committee:	20.12.2016	16.05.2017	05.02.2018
Date of Publication:	23.12.2016	18.05.2017	06.02.2018
Long-term Rating :	BBB-	BBB-	BBB-
Outlook :	negative*	stable	stable
Short-term Rating :	A-3	A-3	A-3
National-scale long-term rating:	A (BG)	A (BG)	A (BG)
Outlook:	stable	stable	stable
National-scale short-term rating:	A-1 (BG)	A-1 (BG)	A-1 (BG)

* The assigned „negative“ outlook is a result from the applied ceiling of the rating, which is determined by the sovereign rating and outlook (as of the time of reconsideration the rating assigned to the Republic of Bulgaria by BCRA is long-term rating: BBB-(ns), outlook: „negative“, short-term rating: A-3 (ns) – see http://www.bcra-bg.com/files/rating_287.pdf).

BCRA – CREDIT RATING AGENCY (BCRA) is the third qualified rating agency in the EU, registered under Regulation No. 1060/2009 of the European Parliament and of the Council. The credit ratings, assigned by BCRA, are recognized throughout the EU and are entirely equal with the other ratings, recognized by European Securities and Markets Authority (ESMA), without any territorial or other restrictions.

BCRA assigns to Eurolease Auto the following ratings:

- Long-term: **BBB-**, outlook: **stable**, short-term rating: **A-3**;
- National-scale long-term rating: **A (BG)**, outlook: **stable**, national-scale short-term rating: **A-1 (BG)**.

The methodology that BCRA has adopted officially has been applied for assigning credit ratings to a leasing company (http://www.bcra-bg.com/files/file_197.pdf)

To elaborate the credit report and to assign the credit rating, BCRA uses information from the rated company, the National Statistical Institute, the BNB its own database, consultants and other public information sources.

In 2016, the growth of Bulgarian economy accelerates, from 3.6% in 2015 to 3.9% in 2016. In the first half of 2017, the economy of the country

increases by 3.7% compared to the same period of 2016.

The uptrend started after 2013 is reinforced in the reserve assets of the BNB which is a solid buffer for guaranteeing the stability of the currency board.

In 2016, the flow of DFI decreases to 1.4%, reaching the lowest values for the last 5 years. The preliminary data say that the decline in the investment flows continues in the first half of 2017.

The data for the labour market in the first half of 2017 reports record-breaking high indicators for economic activity and employment of the population. Ascending remains the labour income trend. Unemployment ratio reaches its pre-crisis levels (6-7%).

Since June 2017, general average annual change of prices register increasing positive values and reach 0.6% as of the end of September.

The balance on government budget reports improvement. The deficit in the size of 2.3% of GDP in 2015 reduces to 1.2% of GDP as of the end of 2016 (size of 1.9% in the State Budget of the Republic of Bulgaria Act).

The budgetary balance on CFP (Consolidated Fiscal Programme), set out in the draft budget for 2018, is a deficit in size of 1.0% of GDP. The government intends to continue the policy for gradual consolidation and reaching a balanced

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budget in 2020. In the forecast period there are not planned substantial changes in the tax policy.

The level of the state debt (27.4% of GDP at the end of 2016, 23.6% of forecast GDP as of the end of September 2017) continues to be a positive factor for Bulgaria¹. The Ministry of Finance expects a fall in the state debt to 22.3% of GDP as of the end of 2018 and reach 20.0% as of the end of 2020.

For the period of updating the banking system in the country is characterized by:

- Retention of substantial share of foreign capital in total capital in the banking system;
- The assets in the banking system continue to increase in the last two completed years and in the first half of 2017;
- The ascending trend in the profit remains in the banking system, observed in the previous three years as well. In the mid2017 the reported profit by the banks reports a substantial move down compared to a year earlier (a decline of 14.6% in nominal value compared to substantial growth of 53.7% as of Q2 2016), as it should be taken in consideration that the indicated is not due to negative trends with regard to the generated income and/or expenses of the bank, and is a result of the circumstance that in the first half of 2016 substantial part of the realized income had a single character (more than 150 mln. BGN are added as a result of the completion of the transaction for Visa Europe);
- In 2016 and first half of 2017, the trend for increasing the attracted funds in the form of deposits retains (exclusive credit institutions);
- After delay in the fall in lending in 2015, in 2016 there is a slight positive change in the size of given loans and advance payments to non-financial sector (0.6% on a yearly basis), and in the first half of 2017 the registered growth accelerates to 3.4% compared to the same period for 2016. The Ministry of Finance 1 Maximum possible reference value of Maastricht criteria for convergence

is 60% foresees this process to continue in the period 2017-2020;

- The non-performing loans decrease to 12.9% of the gross credit portfolio as of the end of 2016 (14.5% as of 2015). Continuous improvement in the quality of the portfolio is observed in the first half of 2017 (by nearly 2 p.p. in comparison with a year earlier), as the level of non-performing exposures remain relatively high – 12.1% of gross credit portfolio;
- The high levels of liquidity and capital adequacy continue to be reported.

For the favorable state of the banking sector testify the results in 2016 of asset quality review and stress tests for stability of banks in Bulgaria (announced in August 2016). They show that the banking sector is stable, well capitalized, and public support of banks with state resources is not needed.

With regard to the leasing sector, the development of the automobile sector is of key importance. In 2016, the upward trend in car production worldwide remains, albeit with a small increase of 4.6%. The sales of new cars in Bulgaria² during the last year report growth of 11.4% (after 15.3% in 2015). The receivables on finance and operating lease increase by 6.7%, which is the largest increase in the post-crisis period. The data for the first nine months of 2017 are also encouraging with an increase of 6.3% on an annual basis. Operating lease continues to be characterized by a minimum share in total lease receivables - around 3%, and for 2016 - 5%.

At the end of September 2017, the largest share in the lease receivables structure take those financing the purchase of light goods vehicles - 35.4%, as the value is the highest for the period since 2005 up to now. The lowest value for that period is reported at the end of 2012 (25.7%). In the second place with a close level is the share of the funded purchases of road freight and light good vehicles - 32.1%. The highest value of the share of these receivables is reported at the end of 2016 (33.5%), and the lowest - again at the end of 2012 (22.7%).

¹ Maximum possible reference value of Maastricht criteria for convergence is 60%

² By data of Organisation Internationale des Constructeurs d'Automobiles

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Since the end of 2005 by the end of September 2017 with the largest amount are the lease receivables with a term between one and five years. A positive factor is the downtrend in non-performing receivables from 2013 up to now. As of 09.2017 it reaches 8.2%. Concerning the structure of the enterprise by sectors as of September 2017 leading are *Transport, storage and communications* (26%) and *trade* (21%).

The trends in the size of the lease receivables on new business are similar to those of total leasereceivables. The lease receivables on new business in 2016 remain far below those achieved in the pre-crisis years despite growth. The slight positive trend remains in the first nine months of 2017 with growth of 9.6% on an annual basis. At the end of 2016, with biggest share in the volume of new leasing receivables are those for the purchase of light goods vehicles (39.8%), and in the second and third place are those financing the acquisition of road freight and light goods vehicles (37.4%) and of machines, machinery and industrial equipment (19.5%). During the first nine months of 2017, there are no substantial changes: the weight of lease for financing cars continues to increase reaching 44.2%, while in road freight and light goods vehicles and machinery and equipment, there is a drop, respectively, of 6.1 p.p. and 2.1 p.p.). As of the end of 2016, the share of new receivables on operating lease amount to 4.3%, which is above the average for the period. During the first nine months of 2017, there is a slight decrease (0.3 p.p.) and their share amounts to 4.0%.

Lease penetration continues to grow in 2016, reaching 0.49% (0.45% in 2015), but it still remains at a low level.

For the period 2006-2011, the number of lease companies increase from 50 to 91, then decline in the following years, reaching 42 at the end of 2016. As of 09.2017 their number increase by 5, reaching 47.

According to opinions of experts, the trends in the sector are rather favorable, which is partly due to low market interest rates, as it is expected if not their continued decline, their retention at a relatively constant level in the near future, which, on the other side, will stimulate the activity in leases. An important factor is the movement in households with which growth is observed, which means that they no longer postpone lease

purchases to such an extent. It should be noted that the segment of vehicle leasing is key at the moment, as it mainly drives business growth forward.

During the period of updating, there are no changes in the shareholding capital of „Eurolease Auto“ and it remains in the size of 20 000 thousand BGN, distributed in the same number of shares, each of which with a nominal value of 1 BGN. A sole owner of the capital remains „Eurolease Group“ EAD, part of „Eurohold“.

The offered lease of cars by Eurolease Auto is mainly driven by market demand, which is why the average class of light goods vehicles and commercial light goods vehicles are mainly covered. Without being limited to certain brands or class of vehicles, among vehicles given on lease by the company prevail the brands offered by dealers and agencies of the Auto Union group (part of the Eurohold Group), namely: Fiat, Mazda, Nissan, Renault, Dacia, and other brands, Opel, Alfa Romeo, Maserati. The company offers vehicles on lease and in partnership with many other vehicle dealers.

The data show that in the last two years the market share of Eurolease Auto decreases, reaching 1.48% (1.96% in 2014). Its highest value within the six-year period is achieved in the first 2011 (2.15%).

It should be noted that if, in 2014, Eurolease Auto is in a more favorable position than the sector with an increasing portfolio by 11.0% (net investment in financial lease), the trend over the following two years changes: in 2015, the company's portfolio reduces by 17.8% (with only 1.1% for the sector), and in the last year the sector increases by 7.3%, while that of Eurolease Auto reduces by 2.6%.

In 2016, incomes from interests on financing lease decrease by 26.3%. There is a decrease in amortization tax for processing and management on finance lease contracts (30.7%) and in the profit from sale of goods (57.7%). Only net incomes from fees and commissions increase (16.3%).

The dynamics of equity is mainly determined by the financial result. After the loss in 2014 (BGN 111 thousand), in 2015, the company realizes a net profit of BGN 1 220 thousand, as well as in 2016 (BGN 579 thousand), and in the half of 2017 (BGN 375 thousand). Total equity at the end of June 2017 amounts to BGN 22 010 thousand.

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Receivables on financial lease decrease for the second consecutive year reaching BGN 43,068 thousand for 2016. In the first six months, however, there is an increase of 11.7% compared to the corresponding period of the previous year.

The liabilities on bank loans in 2016 report a considerable drop of 15.6%, but in the first six months they increase again (30.0% compared to December 2016). The debt liabilities follow a downward trend during the analyzed period: 2.4% in 2016 and 5.0% for the six months of 2017 compared to the end of 2016.

In 2016, the structure of current liabilities is dominated by payments in advance, which form 36.7% of them and increase by 43.4% on an annual basis. They are followed by liabilities to related companies with a share of 35.2%, which however, decrease by 19.7%. As of June 2017 leading to the structure of current liabilities are debts to related companies with a share of 38.7%, which are characterized by a decline of 29.5% compared to the end of 2016.

The faster reduction in incomes (19.2%) compared to the costs (12.3%) in 2016 reflects in a decrease in the realized profit, which reaches BGN 579 thousand, compared to BGN 1 220 thousand in 2015 (as noted above). Net interest income also decreases, but more slightly (by 10.3%). In the first half of 2017, the decrease in both revenues and costs is relatively low, resulting in a profit growth of BGN 375 thousand compared to the same period of the previous year, BGN 322 thousand for the first half of 2016. Net interest income marks a slight decrease of 3.6%.

In 2016, Eurolease Auto realizes a significantly lower profit compared to the previous year, which reflects in the profitability ratios and they decrease. In the first half of 2017, there is a slight increase in the ratios mainly due to the growth in the financial result (16.5%).

In 2016, the fast and current liquidity ratios slightly decrease, but still keep high levels. A more significant decrease is observed in immediate liquidity - from 1.10 to 0.18, mainly due to the significant reduction in cash and equivalents which reports a decrease of 82.2% compared to 2015. In the first half of 2017, there is an increase in all three liquidity ratios that reach their highest levels since 2012 up to now.

The levels of leverage ratios of Eurolease Auto are relatively stable over time and do not show large deviations. The comparative analysis of the leverage of the company shows that the company's achieved figures are still slightly lower than the average for the competitive group which is a positive factor.

The sole owner of the equity Eurolease Group, reports a net loss in 2016 in the amount of BGN 462 thousand, while in the first half of 2017, it generates a net profit of BGN 131 thousand.

BCRA will keep track of the future development of the company's financial condition and is ready to undertake a rating downgrade in case of negative changes such as a significant reduction in market share and revenues and deterioration in the financial result. Excessive liquidity decrease or increase of leverage may also have a negative effect on the company's rating. Accordingly, improvement in the indicators may lead to an increase in the company's national-scale rating (the global rating is limited by the sovereign rating).

Main financial data

Financial indicators, thousand BGN	June.17	June.16	2016	2015	2014	2013
Income from Interests	2 373	2 522	4 955	6 254	6 458	6 543
Expense for Interests	1 300	1 409	2 762	3 808	4 091	4 308
Net Incomes from Interests	1 073	1 113	2 193	2 446	2 367	2 235
Income from commissions, net	258	347	691	594	458	1 077



CREDIT RATING

Eurolease Аyto

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A (BG) / A-1 (BG) (outlook: **stable**)

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Accounting Profit/Loss	375	322	552	1 236	-121	457
Net Financial Result	375	322	579	1 220	-111	428
Assets	81 113	73 815	75 952	80 414	87 368	88 872
Equity	22 010	21 378	21 635	21 056	19 836	19 947
Net investments in financial lease	54 193	40 017	48 964	50 248	61 111	55 040
Funds	2 439	1 437	988	5 565	1 134	656
Financial debts/liabilities	55 629	47 913	48 887	54 296	59 548	56 486

RATIONALE