

„Eurolease Auto” EAD

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CORPORATE CREDIT RATING	Initial rating 12/08	Non-solicited Update 12/09	Update 23/9/10
Long-term rating :	BBB+	BBB+ (ns)	BBB+
Outlook :	<i>developing</i>	<i>stable</i>	<i>stable</i>
Short-term rating:	A-2	A-2	A-2

Bulgarian Credit Rating Agency is the only Bulgarian agency, included in the list of the Financial Supervision Committee, as its ratings are acknowledged equally with those of the international agencies **Moody's, Standard & Poor's and Fitch**. In 2004 BCRA adapted corporate credit rating methodology of ICRA (An associate of Moody's Investors Service). The rating scale of BCRA coincides with the scale of **Standard & Poor's**.

Bulgarian credit rating agency retains a long-term credit rating BBB+ (outlook: stable) and short-term rating A-2 to „Eurolease auto” EAD. The officially adopted methodology for assignment of credit rating of a leasing company is used by BCRA (http://www.bcra-bg.com/files/file_197.pdf).

To elaborate the credit report and award the credit rating BCRA uses information from the rated company, NSI, BCRA's database, consultants and other sources of public information.

During the update period the companies from the leasing sector operate in an unfavorable economic environment, characterized with decline of GDP, outgoing tide of investments from Bulgaria, increase of the unemployment, decline of the actual incomes of the population and, respectively, decline of the consumption, aggravation of the conditions from the financial institutions for lending loans, instability before the business, deferment of projects, company bankruptcy. As a result of the negative crisis effects, decline of 72 % was witnessed in 2009 in the value of the concluded new lease contracts compared to 2008. During the first half-year of 2010 the downturn continued and the registered downturn¹ was ~45% on yearly basis. High growth of the overdue receivables from clients was evident at the same time. The poor sales and strong competition set the lease companies before the necessity to operate with lower margins and take

additional risks. **BCRA estimates the risk from the state of the sector as being relatively high.**

In March 2009 „Thames Capital Partners” Limited, London, devolved the share of 33.33% the company owned in „Eurolease Auto” AD to the other shareholder „Eurohold Bulgaria” AD, which remained the sole capital owner. The capital of „Euromobil Leasing” AD is increased (the rated company holds a share of 51% in Euromobil Leasing AD) of BGN 100 000 to BGN 250 000. „Eurolease Auto” AD keeps the percentage proportion of its share. In the middle of November 2009 „Eurolease Auto” AD became a sole owner of „Eurolease Auto Finance” EOOD, with business activity - purchase, leasing and resale of motor vehicles; it increased the acquired company capital from BGN 5 000 to BGN 250 000. At the end of November 2009 “BG Autolease holding BV” became the sole owner of the capital of Eurolease Auto EAD, which apportioned the all 100% of the shares of the lease company in the capital of „BG Autolease Group BV”. **BCRA estimates the risk from shareholding structure and participations as being low.**

The leasing of the vehicles in the portfolio of the offered services of „Eurolease Auto” EAD for 2009 presented 99.5%; the share of motor cars was bigger. The balance percentage of 0.5% was occupied by the industrial equipment. The company offers financial and operating leasing as well; the financial leasing is a priority part of the transactions. The company activity includes transactions of the „Buy-back” type. The lease portfolio has a well diversification of the clients by economical sectors; however, in regards with the lease assets the concentration remained high. Protective factor in this relation is the range of offered automobile brands – during the update period the company added 13 new automobile brands to its portfolio. The market share of the rated company increased to ~ 5%. The biggest competitive advantage of „Eurolease auto” EAD before the other market competitors is the proposal of low price for complete service, thanks to the cooperation

¹ Source: Bulgarian Leasing Association

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of the company with great automobile dealers and ZD Euroins AD Insurance company which are part of the holding group of "Eurohold Bulgaria" AD.

No significant changes have occurred in the company's equipment and facilities during the analyzed period. **BCRA estimates the overall risk from operating activity as being moderate.**

In 2009 the concentration of receivables from clients is low and continued decreasing as of the first half-year of 2010. The share of the smaller by value receivables (under 2%) as a percentage of the total receivables increased from 46% at the end of 2008 to 70% at the end of 2009 and up to now it is 79%. The value of the overdue receivables on lease contracts increased, however, as of 30.06.2010 the growth of the overdue payments on yearly basis slowed up significantly. The overdue payments within 60-day period have the biggest share, whereas the overdue payments over 90 days are below 0.9% of the leasing portfolio. The concentration of the suppliers remains low; the companies of the group of Eurohold Bulgaria AD have the biggest share. The total amount of unpaid liabilities increased; as of 30.06.2010 it reached to 7.11% of the company turnover; bigger part of them are payable to related persons. **BCRA estimates the overall risk from external factors as being relatively low.**

In the period under review no significant changes have occurred in the management of "Eurolease auto" EAD.

The existing manager practices are improved. The efforts of the management team continue to be directed to active management of the risk. Internal rules of management and credit risk evaluation of company leasing portfolio are elaborated for this purpose; they define clearly the procedures of approval and management of the company leasing transactions, the authorities of the particular employees and business procedures. The existing integrated management system is supplemented and improved in accordance with the company needs, in view with introduction of new products. During the passed period the company followed policy to activate and expand the joint business activity with external dealers. The company develops and realizes new products. After introducing "Cash lease", another three new products are expected to be

introduced. The company continues following an active policy in regards with attraction of new clients. **BCRA retains its assessment for the management risk as being relatively low.**

In 2009 the interest incomes continued increasing (9.1%), however, they increased with slower pace compared to the previous years. Moreover, the interest incomes decreased significantly (16.8%); as a result the company realized net interest incomes amounting to BGN 6 652 thousand (compared to BGN 3 631 in 2008). The net incomes from commissions kept the levels of the previous year. The net profit, realized by Eurolease Auto EAD in 2009, amounted to BGN 3 381 and it is higher several times compared to the realized profit in the previous year. The volume of new business decreased – the principles of new lease contracts present 16.48% of these of concluded contracts during the previous year, the matured contracts are by 62.24% more than the principles of new contracts; the net investment in financial lease of "Eurolease Auto" EAD decreased by 21.4% compared to average market decline of 14.86%. Comparatively, "Eurolease auto" EAD continues to occupy a favorable position on the indicator Interest incomes/Net investment in financial lease, retaining the levels of the previous year. The company leverage is retained at stable levels, as well as lower compared to the leverage of the competitive companies.

During the first half-year of 2010 the interest incomes registered downturn of 26.0% on yearly basis. Interest expenses decreased only by 20.5%; the result is the company realized lower net interest incomes (BGN 2 196 thousand) compared to the same period of the previous year (BGN 3 315 thousand). Wholly, the balance value of the liabilities to banks decreased and as of 30.06.2010 they amounted to BGN 70 600. **BCRA estimates the overall financial risk as being relatively low.**

Despite the volume of new business and size of the net lease investments decrease, as a result of the unfavorable operating environment, "Eurolease Auto" EAD continues being characterized with very fair profitability.

Main financial indicators:

Financial indicators, thousand leva	6.2010	6.2009	2009	2008	2007
Interest Incomes	5 907	7 985	15 306	14 034	6 482
Interest expenses	3 711	4 670	8 654	10 403	4 674
Net incomes from interests	2 196	3 315	6 652	3 631	1 808
Net Incomes from commissions	674	843	1 859	1 970	1 477
Accounting profit	475	2 895	3 756	743	1 769
Net profit	475	2 895	3 381	674	1 605
Assets	156 065	175 529	165 786	184 963	108 097
Equity	17 758	16 797	17 283	13 902	9 759
Net investment in financing lease	100 993	119 391	105 560	134 250	88 472
Gross investment in financing lease	117 232	140 005	122 531	159 758	106 737
Cash resources	2 287	3 531	1 857	1 739	838
Financial liabilities	115 160	138 927	125 089	153 046	95 741