

## February 2020

### „Eurolease Auto“ EAD

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CREDIT RATING*	Review	Review
Date of Rating Committee:	21.02.2019	27.02.2020
Date of Publication:	22.02.2019	28.02.2020
Long-term Rating:	BBB-	BBB-
Outlook:	stable	stable
Short-term Rating:	A-3	A-3
Long-term National-scale Rating:	A (BG)	A (BG)
Outlook:	stable	stable
Short-term National-scale Rating:	A-1 (BG)	A-1 (BG)

\* To become familiar with the rating, please see the table at the bottom of the document

“BCRA – Credit Rating Agency” AD (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.

The BCRA – Credit Rating Agency **affirms** the assigned ratings to **Eurolease Auto EAD** as follows:

- Long-term rating **BBB-** / Short-term rating **A-3** outlook „**stable**“;
- Long-term National-scale rating: **A (BG)** / Short-term National-scale rating **A-1 (BG)** outlook „**stable**“.

**BCRA uses the officially adopted methodology for assignment of a credit rating to a leasing company:**  
[https://www.bcra-bg.com/files/Leasing\\_Company\\_Methodology\\_2016\\_bg.pdf](https://www.bcra-bg.com/files/Leasing_Company_Methodology_2016_bg.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 database, consultants and other public information sources.

## Operating Environment

### Sovereign Risk

The economic development of the country in the context of the expected accession of the Bulgarian Lev to the ERM II exchange rate mechanism has been thoroughly analysed by BACR - Credit Rating Agency and thus was assigned the unsolicited sovereign rating of the Republic of Bulgaria. The growth of GDP and GVA by components as well as the dynamics of the external sector indicators were studied. The level and structure of government debt are both positively assessed, taking into account the parameters of new debt issued in 2019. The state of the current banking sector is assessed as stable.

The Rationale of the rating of the Republic of Bulgaria can be viewed on the official website of BCRA:

[https://www.bcra-bg.com/files/rating\\_republic\\_of\\_bulgaria\\_oct\\_2019\\_bg.pdf](https://www.bcra-bg.com/files/rating_republic_of_bulgaria_oct_2019_bg.pdf)

### Lease Market in Bulgaria

In the period under review, the leasing business continues its **favourable development**. The total portfolio of receivables under financial and operating lease contracts is increasing for a third consecutive year. Its value increased by 12.0% in 2018 (reaching BGN 4,038 million), following the growth of 8.8% in 2017 and 7.3% for 2016. At the end of September 2019, the portfolio size reached BGN 4,272 million, representing an additional growth of 5.8% in the nine months of the year (and 8.2% on an annual basis compared to the corresponding period of 2018). The positive trends come after the long-delayed

investment intentions and the beginning of an increase of the lease volumes granted to the households and commented by the business, reflecting the overall positive influence of the maintained stable macroeconomic indicators and the political stability of the country.

In terms of the **structure by types**, the financial lease is the leader, while the receivables of the operating lease are having a low share at about 5-6% of total receivables in relative terms in the last four years.

The level of **lease penetration** to GDP maintains an overall slightly expressed upward trend over the last five years, with the level rising from 0.47% in 2013 to 0.52% in 2018, which is the highest in the country for the five analysed years but remains well below the registered of the EU countries. Looking at the changes in the ratio of lease receivables of the new businesses to net investments, the lease penetration rate over the last five years, remains volatile and also records a slight upward trend, but is remaining below the 2.0% level for the past two years. For comparison, the level of the ratio calculated for the total of 22 European Leaseurope<sup>1</sup> countries is 14.8% for 2018 (14.5% for 2017).

The penetration levels evidence for maintenance of the high perspectives of the market, which, however, is depending on the intensity of the process of increase in the purchasing power of market participants.

In the review period the dynamics in the structure of lease receivables by **assets class** compound due to the continuing growth in the automotive sales and the drop in the property sales. The financing of car purchase accounts for a 40.5% share in the total lease portfolio of the sector at the end of September 2019 (compared to 36.9% at the end of 2017) and together with the retained high share of vans and trucks sales, determine the high dependence of the lease market on automotive deals (72.8% as of 30.09.2019 and 67.5% at the end of 2017). The lease for property deals continues to decline (5.2% share in the portfolio as of 30.09.2019, compared to 8.5% at the end of 2017). Computers, electronic equipment, machinery, industrial equipment slightly increased their total share to 19.5% as of 30.09.2019 (compared to 18.6% as of December 31, 2017).

The **maturity structure** of the portfolio faces an increase in the share of lease receivables with a term

from one to five years. The positive trend towards a decrease in the non-performing receivables at the end of September 2019 reached 3.7% compared to total receivables (8.1% at the end of 2017). In absolute terms, they dropped to BGN 150.6 million (BGN 278.7 million at the end of 2017), which is the lowest registered value in the last 10 years.

According to the type of lessee (according to the reporting requirements to BNB), the **dominating position of non-financial corporations** retains but with continued growth of the share of households and NPISHs<sup>2</sup> in the past four years (2016-2019). The latter remains at low levels (16.0% at the end of September 2019) showing a positive trend and significant prospects.

The lease receivables of **new business** marked a more significant increase of 19.8% in 2018 (following the slight growth of 2.6% in 2017). It is a result of the increase in financial lease receivables (21.6%), a decrease by 12.0% of the operating leasing, which retained a negligible share of 3.9% for 2018 and 4.0% as of September 2019 (5.3% for 2017). The growth is well above the average of 7.7% on Leaseurope's market data for 34 countries in Europe. The share of **household** lease purchases continues to grow, reaching 17.8% in 2018 (19.7% as of 30.09.2019), with a well-defined traceable upward trend since 2016 (8.0% in 2015).

While the portfolio of lease companies in Bulgaria remains dominated by **car deals**, the steady growth of sales of new cars in the country should be noted having some slowdown as well (11.3% in 2018, after 22.8% for 2017).

In the regulatory framework, a more substantial amendment is the mandatory implementation (as of 1 January 2019) of the amended **IFRS 16 Leasing**<sup>3</sup>.

**The development trends** of the industry could be defined as **rather favourable**, taking into account the low market interest rates and the overall positive signals for a sustainable economic development, which are expected to stimulate the lease activities. A major factor is the growth of households' purchases, which together with the positive trends in the market of new cars (still low share in the total automotive

<sup>2</sup> Non-profit Institutions serving households (incl. trade unions, political parties, foundations, etc.)

<sup>3</sup> The implementation of the **new IFRS 16 Leasing** (adopted on 31.10.2017) requires significant changes in the accounting of the leasing arrangements with the lessees, eliminating the accounting distinction between operating and financial leasing.

<sup>1</sup> <http://www.leaseurope.org/> - Европейска федерация на асоциациите на лизинговите компании в Европа

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market) and the growth of the lease penetration, leads to positive expectations for the future development of the business. On the **negative side**, the highest impact on the markets can have a lack of income and the weak purchasing power of the households.

### „Eurolease Auto“ EAD

In the period of the update, there are no changes in the value and distribution of the **share capital** of Eurolease Auto EAD. It is owned by Eurolease Group AD, a part of Eurohold Bulgaria AD and amounts at BGN 20 million. Management remains the same.

The rated company is specialized in providing leasing services, mainly for the purchase of cars, light consumer vehicles and busses. The loans for the purchase of vehicles (interest rates and taxes for the management of the financial leasing) account for a major share of above 70% of the income, which has increased to 77-78% under the period of review. The remaining part of the income comes from revenues from interests on loans provided by the company.

The company retains unchanged its **strategic goal** - to become a key player among the leaders of non-financial leasing companies on the Bulgarian automotive lease market. For that purpose, the company offers a complex product which comprises of sale and repurchase of the leased product, loan financing, and insurance. The offered lease of cars by Eurolease Auto is mainly driven by market demand and supply, which is why the average class of light goods vehicles and commercial light goods vehicles are mainly covered. The company has implemented one big deal with e-busses in the period under review. As one of the associates of Eurohold Bulgaria, the company develops its strategy in line with and in the synergy of the companies in the group – the dealers in the group of Auto Union (the car brands: Dacia, Renault, Nissan, Fiat, Alfa Romeo, Maserati, Mazda, Opel) and the insurers in the Euroins Insurance Group. The company offers car leases in a partnership with other dealers as well.

**Competitors** of Eurolease Auto EAD are all leading lease companies specialized in car lease (numbering at around 25 by the end of 2019). For the assigned rating, the results of the company and the achieved key economic indicators are compared with those of a group of four captive companies that do not have a

direct relationship with banking institutions (similar to the rated company), including BL Leasing AD, Moto Pfoe Leasing EOOD, Porsche Leasing BG EOOD and Sofia Leasing Company EAD.

**The market share** of Eurolease Auto EAD presented as a ratio of receivables to total receivables in the country is volatile at approximately 1.5% in past 4 years, with a registered upward trend in the last two years (2017-2018) and slight decrease (to 1.52% at September 2019). The retained level is lower compared to two of the companies in the reference group (Porsche Leasing and Sofia Leasing) and equals to the one reached by Moto Pfoe, remaining higher than the market share of BL Leasing.

The main **competitive advantage** of Eurolease Auto EAD is the opportunity to offer lower prices for a package (leased car, service, insurance), taking advantage of the synergy effect of its association to a group of car dealers and insurers. Additional advantages are the implementation of a simple and fast application process and approval procedure (accessible online) and a well-developed sales network of the company's 22 branches in all major cities in the country (most of them are regional centres).

Compared to the competitors, the main **weakness** is the relatively limited access to low-cost funding, which limits the ability to offer competitive pricing to customers.

The period under review is characterized by an **increase in a net investment of financial lease** (by 28.2% in 2018, followed by slight drop at 30.09.2019) and as a consequence a **growth in income from lease activity** – by 12.5% in 2018/2017 and 16.4% in Q3'19/Q3'18. In 2018, Eurolease Auto reported a portfolio growth and for a second consecutive year exceeds the growth registered in the sector (12.0% in 2018 and 8.8% in 2017). The reference group reported a lower average growth rate of 15.2%, which is formed by the traditionally high levels maintained by Porsche Leasing BG (27.6% for 2018), the weaker increases in the portfolios of BL Leasing (12.2%) and Sofia Leasing (by 2.0%) and a decrease in the portfolio of Moto Pfoe Leasing (-4.0%).

The income from **interest rates** is maintained at the relatively equal amount and also relatively steady share at about 21-22% in total incomes in the past four years (incl. 2019).

The slight downward trend in the income from management fees, as well as other fees and commissions, emerges in an increased financial income from lease and could be viewed as an effect of the enhanced competition in the sector.

In 2018, the **equity** of Eurolease Auto registered a decline of 10.4%, following the two years of growth (by 3.5% for 2017 and by 2.7% for 2016). It is due to the increase of the loss not covered (irrespectively of the positive net financial result of BGN 747 thousand in the previous year), as an effect of the one-off adjustment with the implementation of the new IFRS 9 (Financial Instruments). As a result of the implementation of the standard, the amount of additional impairment documented at 01.01.2018 resulted in an increase in loss not covered totalling at BGN 4 356 thousand. Influenced by the current positive result, which was registered in nine months of 2019 the equity is growing by 5.5% compared to the end of 2018.

The total increase of the **asset** value amounts at 16.5% in 2018 and is maintained relatively unchanged as of the end of September 2019 (with a slight decline of -0.3%). This growth, together with the registered increase in 2017 (14.5%) breaks the long-observed downward trend of the assets in the previous five years (2012-2016). **The more remarkable dynamics in the structure of the asset are:**

- The significant increase of the lease portfolio and the change of its share to 72.7% of total assets as of the end of 2018 (66.0% in a year earlier). As a consequence in the nine months of 2019 it dropped slightly to 70.7%;
- Complete closure of the receivables on loans to unrelated parties, made through agreed transfer to Eurohold Bulgaria (November 2018), which led to an increase of the receivables from related parties. This, in turn, results in an increase in the value of receivables from related parties and their position as second by asset weight (by 19.0% at the end of 2018 and 19.7% at 30/09/2019, compared to 8.4% at the end of 2017);
- In 2018, the sole owner of Eurolease, namely Eurolease Group and the controlling company Eurohold Bulgaria acquired financial assets (bonds) at the amount of BGN 4.2 million;
- A considerable decline in the volume of the stock items;
- A significant reduction in the size of the court and writs receivables – to BGN 596 thousand as of 30.09.2019 compared to BGN 2 940 thousand as of 31.12.2017;
- A significant increase in the value of FTA in 2019 (reached BGN 1 315 thousand by the end of September, compared to the insignificant BGN 13 thousand nine months earlier), as a result of acquired rights on assets of BGN 1 295 thousand.

Albeit the above-mentioned dynamics in the assets, the company registers an outpacing increase in total **liabilities** - by 25.9% for 2018, followed by a decrease of 1.1% for the next nine months (in 2019). In general, the liabilities on the attracted funds for operating activities retained dominating high share of above 90% in total liabilities (94% as of the end of September 2019). The downward trend in financing via bond loans and the increasing utilization of bank loans retain. In the review period, the company increases its obligations on bank loans (by 58.5% in 2018, followed by a decline by 8.2% for the nine months of 2019), thus financing its business expansion. While renegotiating the terms of the loans, the company succeeded to achieve a substantial decline of interest rates. Also, out of the review period (in the last quarter of 2019), the company paid off the bond issue with the highest interest rates (a high nominal value of the liability of BGN 12.1 million as of 30.09.2019).

On other types of obligations a decline is observed and retention of lower amounts of liabilities to customers.

The dynamics in income maintain growth in the net interest income (by 9.8% in 2018 and 18.0% in the nine months of 2019), which is the main reason for the significant improvement in the financial results – net profit at the amount of BGN 2 013 thousand in 2018 compared to BGN 747 thousand in 2017 and current profit of BGN 1 095 thousand for the nine months of 2019 compared to BGN 555 thousand for the corresponding past period.

The year 2018 is characterized by an additional positive impact on the result of net positive revaluation on assets (revaluation impairments) of BGN 1,083 thousand (after the relatively constant negative amounts in the previous three years at the average of BGN 470 thousand).

The **administrative expenses** are preserving relatively constant in the last five years (ranging at BGN 2.0-2.1 million). The year 2018, is marked by the most substantial increase (7.0%), due to the hikes of wages and social security contributions (by 13.9% in 2018). They are the second-largest item in the structure of maintenance costs (up by 44.6% in 2018). Expenses on hired services remain the largest in value and share (49.1% in the same year). The value is negligible in 2018 but declined substantially in 2019.

The profit increase in 2018 and the nine months of 2019, resulted in significant improvements in the **profitability** ratios, which are much higher compared to the competitors of the reference group.

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The expanded credit exposure in line with the decline of the equity adversely affected the following: an increase in the indicators *total leverage and liquidity*, as well as a decrease in the solvency ratio (due to the lower degree of coverage of obligations with the equity). The registered values of the three indicators remained in the nine months of 2019, having slight positive dynamics supported by the reduction of liabilities (on loans) and equity. The last nine months of the review period are marked by more positive change – a decline of the credit liquidity. The repayment of the liabilities on the bond issue at the end of 2019 (at the amount of BGN 12.1 million) resulted in additional positive dynamics in the total leverage ratios at the end of 2019.

The total leverage maintained by the companies in the reference group is of the same range for two of the companies in 2018 (BL Leasing and Moto Pfoe Leasing), significantly higher for Porsche Leasing BG and significantly lower for Sofia Leasing. The levels of the leverage are very close to those maintained by the two companies in the group using similar forms of outsourcing financing.

When comparing the level of the *interest spread*, albeit it's continuing decline in the review period, the company continues to maintain levels above the reported by competitors.

For the present review, BCRA analysed the position of the majority shareholder in the rated company, namely **Eurolease Group**. The shareholder reports similar positive dynamics in the period of review and maintains a general steady financial position.

*BCRA will continue to monitor the future dynamics of the financial position of the rated company Eurolease Auto EAD, as well as the position of its major shareholder Eurolease Group AD and would downgrade the rating in an event of adverse changes, such as a significant reduction of market share and revenue, deteriorating financial results, excessively lowering liquidity, or increasing debt.*

*The rating could also be upgraded in case of lasting positive trends in the same indicators.*

*The key performance and assessed indicators in the last five years are presented in the following table.*

#### Main Financial Indicators – „Eurolease Auto“ EAD

(BGN' 000)	09.2019	09.2018	2018	2017	2016	2015	2014
Total Income	5 225	4 334	7 698	5 899	6 274	7 763	7 563
Total Expenses	4 130	3 779	5 667	5 152	5 722	6 527	7 684
<b>Net Financial Result</b>	<b>1 095</b>	<b>555</b>	<b>2 031</b>	<b>747</b>	<b>579</b>	<b>1 220</b>	<b>-111</b>
Income from Interests	4 516	3 782	5 218	4 818	4 955	6 254	6 458
Expenses for Interest payments	2 399	1 988	2 789	2 605	2 762	3 808	4 091
<b>Net Interest Income</b>	<b>2 117</b>	<b>1 794</b>	<b>2 429</b>	<b>2 213</b>	<b>2 193</b>	<b>2 446</b>	<b>2 367</b>
<b>Assets</b>	<b>98 409</b>	<b>-</b>	<b>101 371</b>	<b>86 987</b>	<b>75 952</b>	<b>80 414</b>	<b>87 368</b>
Net Investment in Financial Leasing	69 546	-	73 647	57 439	48 964	50 248	61 111
Funds	1 538	-	1 434	1 700	988	5 565	1 134
Receivables on loans from related parties and other	19 522	-	19 372	27 848	26 000	24 601	25 123
Equity	21 152	-	20 057	22 382	21 635	21 056	19 836
Liabilities on bank loans and bond loans	72 549	-	79 030	58 807	48 887	54 296	59 548
Liabilities to suppliers	4 708	-	2 284	5 798	5 430	5 062	7 984

### CREDIT RATING „Eurolease Auto” EAD

Long-term / short-term rating: **BBB- / A-3** (outlook: **stable**)  
 Long-term / short-term national-scale rating: **A (BG) / A-1 (BG)**  
 (outlook: **stable**)

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#### Rating History:

CREDIT RATING	Initial rating 20.12.2016	Monitoring 16.05.2017	Update 05.02.2018	Review 21.02.2019
Long-term rating :	BBB-	BBB-	BBB-	BBB-
Outlook :	negative*	stable	stable	stable
Short-term rating :	A-3	A-3	A-3	A-3
Long-term national-scale rating:	A (BG)	A (BG)	A (BG)	A (BG)
Outlook:	stable	stable	stable	stable
Short-term national scale rating:	A-1 (BG)	A-1 (BG)	A-1 (BG)	A-1 (BG)

\*The assigned „negative“ outlook results from the applied ceiling on the rating of the sovereign rating and outlook of the country (at the time of the review, the rating assigned by BCRA to the Republic of Bulgaria is long-term rating: BBB-(ns), outlook: „negative“, short-term rating: A-3 (ns))

RATIONALE