

Research Update:

Russia-Based Sovcombank Outlook Revised To Positive On Stronger-Than-Average Earnings Capacity; 'BB/B' Ratings Affirmed

January 15, 2021

Overview

- We expect Sovcombank PJSC can sustain an earnings buffer that is stronger than the Russian average in 2021-2022.
- Rapidly expanding buy-now-pay-later (BNPL) card business will support growth, strengthening Sovcombank's business position and profitability.
- We are therefore revising our outlook on Sovcombank to positive from stable and affirming our 'BB/B' ratings.
- The positive outlook indicates that we could upgrade Sovcombank if the bank displays sustainable and profitable growth, particularly in BNPL cards, while maintaining higher-than-average earnings capacity and robust asset quality.

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Rating Action

On Jan. 15, 2021, S&P Global Ratings revised its outlook on Russia-based Sovcombank PJSC to positive from stable.

At the same time, we affirmed our 'BB/B' long- and short-term issuer credit ratings on the bank.

Rationale

We believe Sovcombank's business model will allow the bank to continue enjoying stronger than average profitability in the domestic market. In addition, we believe the successful integration of newly acquired businesses and assets will support profitability. The bank's performance was strong throughout 2020, despite pandemic-related stress, and was broadly comparable with that of higher-rated peers, such as Alfa-Bank and Raiffeisen Bank. Most other banks reported substantially worse results due to pressure on margins and increased credit costs.

The group managed to achieve a high return of equity (ROE) of an annualized 21% over the first nine months of 2020, largely owing to:

- Higher interest rates on securities investments by building a bond portfolio during March-April 2020, when pricing was favorable and through hedging risk;
- Strong performance of BNPL card business under the Halva brand, which turned profitable in 2020; and
- Better-than-average resilience of the loan book, as shown by low cost of risk in the corporate segment and a low volume of restructured loans, which accounted for only 4.2% of total loans to small and midsize enterprises by Sept. 30, 2020 (of which 3.9% represent a decline in interest rates due to subsidies, and only 0.3% are due to weaker credit quality), compared with the system average of about 14.6%; and 2.2% of retail loans compared with 4% for the banking sector.

We also believe the expanding BNPL business will be a strong contributor to the bottom line in 2021-2022. Sovcombank's penetration of the BNPL market will increase on the back of stagnating household disposable income. We think Sovcombank is one of the market leaders in this business, having reportedly signed agreements with almost 25% of retail stores, including many large chains.

In addition, Sovcombank's earnings buffer is stronger than that of its peers. The earnings buffer indicates that Sovcombank has greater capacity to cover normalized losses than peers, and this will therefore continue supporting its capital base, thereby fueling further asset growth. We project the bank's 2021 earnings buffer at about 120 basis points (bps; on a three-year-average basis), compared with the 58-bp average for large Russian banks or 63-bp average for international peers rated 'BB' for the same period.

Outlook

Our positive outlook reflects our view that Sovcombank can strengthen its business position and outperform peers in the 'BB' rating category should it further expand its BNPL card business, while maintaining higher-than-average earnings capacity on the back of robust asset quality.

Upside scenario

We may raise the ratings if Sovcombank is able to diversify and improve the stability of its revenue base by successfully expanding its retail business, including its new flagship brand Halva, while maintaining a low cost of risk in its established corporate business and stable capitalization.

Downside scenario

We may revise the outlook to stable if Sovcombank fails to maintain better-than-average earnings capacity or its strategic initiatives fail to strengthen its business profile, for example due to intense competition or unfavorable market conditions.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	BB/Positive/B	BB/Stable/B
SACP	bb-	bb-
Anchor	bb-	bb-
Business Position	Adequate (0)	Adequate (0)
Capital and Earnings	Moderate (0)	Moderate (0)
Risk Position	Adequate (0)	Adequate (0)
Funding and Liquidity	Average and Adequate (0)	Average and Adequate (0)
Support	+1	+1
ALAC Support	0	0
GRE Support	0	0
Group Support	0	0
Sovereign Support	+1	+1
Additional Factors	0	0

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Sovcombank PJSC		
Issuer Credit Rating	BB/Positive/B	BB/Stable/B

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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