

Research Update:

Allied Nationwide Finance Ltd. Rating Lowered To 'B'; Placed On Watch Negative On Weak Liquidity, Delayed Capitalization

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Overview

- We have lowered Allied Nationwide Finance Ltd.'s (ANF's) long-term issuer credit rating to 'B'. At the same time we have placed ANF's 'B/B' issuer credit ratings on CreditWatch Negative, which implies a one-in-two likelihood that the rating may be lowered within the next three months.
- The rating action reflects a weakening of ANF's liquidity position stemming from loan repayment delays and a deterioration in its debenture reinvestment rate.
- The downgrade also factors in ANF's inability to maintain liquidity at previously forecast levels, in support of the 'BB-' rating, and a delay in an anticipated NZ\$30 million capital injection from ANF's parent, Allied Farmers Ltd. (AFL; not rated).

Rating Action

On June 4, 2010, Standard & Poor's Ratings Services lowered its long-term issuer credit rating on New Zealand finance company, Allied Nationwide Finance Ltd. (ANF) to 'B' from 'BB-'. At the same time, the 'B/B' issuer credit ratings were placed on CreditWatch with negative implications.

Rationale

The rating action reflects a material deterioration in ANF's liquidity position beyond what we previously expected and factored into the 'BB-' rating. In our view, this deterioration has increased ANF's exposure to a cash shortfall from now until October 2010 should reinvestment rates weaken from current already-modest levels or if cash inflows from loan repayments were to be delayed beyond our current expectations. ANF's debenture-reinvestment experience fell to about 29% in May 2010, down from a monthly average of about 48% earlier in 2010. Liquidity has also been diminished by a weaker-than-anticipated loan-repayment experience. We also expect that refinancing risk and liquidity pressures will be heightened when support from the New Zealand government's retail deposit guarantee expires on Oct. 12, 2010. We note that ANF has not qualified for cover under the extended guarantee. While we anticipated that liquidity would be maintained at a level consistent with the 'BB-' rating, to this point management has not taken action to ensure this.

The counterparty credit ratings on ANF reflect: the company's weak stand-alone capital (noting that we anticipated an improvement during 2010); its recent asset-quality deterioration; and its dependence on debenture-holder confidence given that a material amount of debenture refinancing is expected through to October 2010. These factors are offset by its status as a core operating entity within the recently recapitalized Allied Farmers Ltd. (AFL) group, and its business profile being more diverse relative to domestic peers. The 'B/B' ratings factor in our assumption that additional capital will be transferred to ANF from AFL.

With a loan portfolio spanning the business, rural, and property sectors, ANF's business profile is more diverse than many New Zealand nonbank deposit takers'. We note, however, that its borrowers are higher risk compared with banks operating in these sectors. Further, its loan book shows some large lending exposures relative to its size.

CreditWatch

A CreditWatch Negative listing by Standard & Poor's implies a one-in-two likelihood that the rating may be lowered within the next three months. The rating could be lowered by one or more notches if ANF's reinvestment experience is not quickly stabilized, or if balance-sheet cash levels are weakened by any material and unanticipated delay in scheduled loan repayments. Although AFL is still pursuing the recapitalization of ANF through the transfer of loan assets acquired from Hanover Finance Ltd. (Hanover; unrated) and United Finance Ltd. (UFL; unrated) this, in itself, will not provide immediate liquidity support for ANF. That said, the rating could also come under further downward rating pressure if ANF's recapitalization were to be materially further delayed. This would compromise our opinion of AFL's ability to inject capital and liquidity into ANF and undermine our current view of ANF's strategic importance to the wider parent group. If Standard & Poor's credit concerns are much worse than currently envisaged and if, in our opinion, ANF's financial flexibility and contingent plans to respond to liquidity pressures are limited such that default is possible within six months under realistic scenarios, the rating could be lowered further into the 'CCC' category.

We expect to resolve the CreditWatch after further discussion with management and further analysis of ANF's ability to contend with liquidity pressures at the 'B' rating level in the current unstable operating environment for finance companies in New Zealand.

Related Criteria And Research

This article is based in part on the following criteria articles:

Credit Policy Update: Criteria On Use Of CreditWatch And Outlooks Clarified, published on Sept. 30, 2005.
Rating Finance Companies, published on March 18, 2004.

Ratings List

Downgraded; CreditWatch/Outlook Action; Ratings Affirmed	To	From
Allied Nationwide Finance Ltd. Counterparty Credit Rating	B/Watch Neg/B	BB-/Negative/B

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