S&P Global Ratings

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Research Update:

Societa per la Gestione di Attivita SpA Assigned 'BBB' Rating; Outlook Negative

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Overview

- In our opinion, there is an almost certain likelihood that the Italian government would provide extraordinary support in the event of financial stress to Società per la Gestione di Attività SpA (SGA), the entity managing the problematic loans of some defaulted Italian banks.
- We are therefore assigning our 'BBB' long-term rating to SGA, equalizing it with our unsolicited long-term sovereign credit rating on Italy.
- The negative outlook on SGA mirrors that on Italy. We could lower our ratings on SGA over the next 12-18 months if, all else being equal, we lowered our ratings on Italy, or saw a weakening in SGA's link with or role for the Italian government.

Rating Action

On July 23, 2019, S&P Global Ratings assigned its 'BBB' long-term issuer credit rating to Italy-based financial institution Società per la Gestione di Attività S.p.A. (SGA). We also assigned our 'BBB' issue rating to SGA's senior unsecured debt. The outlook is negative.

Rationale

The rating on SGA primarily reflects our view that there is an almost certain likelihood that the Italian government would provide it with timely and sufficient extraordinary support if it were in financial distress. We therefore equalize our long-term rating on SGA with our long-term unsolicited sovereign credit rating on Italy.

As we consider SGA a government-related entity, we base our rating approach on our view of SGA's:

- Critical role for the Italian government through SGA's public policy mandate; and
- Integral link with the Italian government, demonstrated by its ownership and governance structure.

We view SGA as a key instrument for the Italian government to clean up troubled banks' balance sheets, thus preserving financial stability, helping lending resume, and fostering economic growth.

As Italy's national asset management company (AMCo) under the EU blueprint, SGA has a public mandate to help Italian banks to reduce their large stock of nonperforming exposures (NPEs). In addition, we believe SGA's mission goes beyond just supporting the Italian banking sector. It fulfills a second public policy role: avoiding the negative impact that a limited credit supply and the forced liquidation of corporates and small to midsize enterprises (SMEs) might have on the Italian economy.

SGA was established back in 1996 to act as master servicer for €2.6 billion in bad loans originated from the bail-out of the defaulted Banco di Napoli (BdN). In 2016, SGA's role was extended to allow it to support other distressed Italian banks burdened by a large NPE stock.

In 2018, Ministerial Decree 221/2018 established the creation of two SGA's ring-fenced segregated patrimonies (Liquidazioni coatte amministrative, LCA), each holding the assets acquired from the respective banks in liquidation, Banca Popolare di Vicenza e Veneto Banca, allowing SGA to administer their activities. The transaction concerned a transfer of the combined €18.7 billion gross (€6.4 billion net) portfolios of NPEs of the two liquidated Venetian banks.

Thanks to this transaction, SGA became an important player in the Italian debt purchasing and servicing market, ranking as leader and third-largest in managing unlikely-to-pay (UTPs) and nonperforming loans (NPLs; "sofferenze"), respectively. We expect the company to consolidate its market positioning further, given the regulatory pressure on banks to reduce their still-large, albeit decreasing, stock of NPEs. As such, we anticipate SGA will continue to perform its essential role for the government of sustaining domestic economic growth.

SGA's public role gives it some distinctive features compared with private operators, in our view. First, SGA tends to have a patient approach in the management of UTPs to avoid the negative impact on the real economy that forced liquidations could have. This is particularly evident if we consider that SGA's managed assets are related to about 26,000 SMEs and thousands of households concentrated in two of the wealthiest Italian regions, Veneto (about 35% of the managed loans) and Lombardy (about 19% of managed loans), and therefore the territorial impact for these areas is very relevant as a public policy concern.

Second, SGA does not seek to maximize profits in the same way a private operator would. Indeed, SGA's margin on the NPE portfolios of the Venetian banks is limited by a "collar" structure. The collar entails a mechanism under which:

- Whenever the SGA's EBITDA is negative, it would receive from the separate assets of the above-mentioned liquidated Venetian banks sufficient cash to break even;
- Whenever the EBITDA is above 8.5%, SGA transfers to the separate assets 90% of the excess amount; and
- No transfers will take place when the EBITDA is between 0% and 8.5%.

In our view, this implies that the entity is not entirely profit-maximizing, but wants to recover its costs, and achieve a reasonable profitability, while limiting losses on the liquidating entities. The collar guarantees that SGA's returns remain in line with the market and is aimed at minimizing the risk of state-aid conflicts with the European Commission's Directorate-General for Competition (DG Comp). It also grants SGA reasonable comfort in conducting its business. This is because SGA will not incur in the risk of posting losses, at least at the operational level.

The Italian government, through the Ministry of Economy and Finance (MEF), is the sole shareholder of SGA and decides the company's strategic direction. Under the current governance structure there are three board members, of which two are MEF representatives. Currently, the chairman of SGA is the Director General of Italian State Treasury. SGA is also subject to the supervision of the Bank of Italy and "Corte dei Conti," the official state auditing body.

We consider the Italian government has a direct interest in the viability of SGA and its success, to avoid having to honor guarantees it granted when SGA took on the NPEs of the Venetian banks. Indeed, the government provided an explicit guarantee of €6.4 billion on the loan Intesa granted to the LCA as part of the transaction. The state might even extend its guarantee up to an additional €4 billion if Intesa exercises its right by June 2020 to give back to the Venetian banks in compulsory administrative liquidation about €4 billion of high-risk performing loans of the former Venetian banks should they be reclassified as NPLs or UTPs. In our view, one of the reasons for the structure in its present form--the existing separate assets are not on SGA's balance sheet but they benefit from the explicit state guarantee on the loan granted by Intesa--was to keep government liabilities arising from the transaction outside of Eurostat's definition of gross general government debt.

Our assessment of SGA's stand-alone credit profile (SACP) mainly reflects our view of the company's highly leveraged financial risk profile, as measured by debt on EBITDA, which could materially increase in the short-to-medium term, depending on SGA's future business development. Specifically, we understand SGA needs to enlarge the size of the portfolios it manages to maintain a positive EBITDA margin. Our SACP assessment also reflects our view of the company's relatively good market positioning in the niche UTP and NPL Italian market. This benefits from the ongoing government support providing SGA with a competitive advantage over its competitors and from strong growth potential. Indeed, we anticipate that regulatory pressure on NPE reduction could further consolidate the company's business model. The company's state-ownership also provides it with a lower-than-peers funding costs, while the collar agreement in place limits both upside and downside of its operating efficiency.

Currently, SGA has an outstanding debt of €250 million as a part of its euro medium-term note program and a current ceiling of €1 billion, which could be further increased. The outstanding issuance does not benefit from an explicit guarantee by the Italian state as SGA has the legal power to issue unguaranteed debt. However, as per our assessment, there is an almost certain likelihood that the Italian government would provide timely and sufficient extraordinary support to SGA in the event of financial distress.

Outlook

The negative outlook on SGA mirrors the negative outlook on Italy.

Downside scenario

We could lower our ratings on SGA over the next 12-18 months, all else being equal, if:

- We lowered our ratings on Italy; or
- We saw weakening in SGA's link with or role for the Italian government, leading us to reappraise our view that there is an almost certain likelihood of extraordinary support from Italy to SGA.

Upside scenario

We would revise the outlook on SGA to stable if we did the same for Italy, and we continued to expect an almost certain likelihood of extraordinary government support for SGA.

Related Criteria

- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Financial Institutions | Finance Companies: Key Credit Factors For Financial Services Finance Companies, Dec. 9, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Outlook On Italy Revised To Negative On Risks To Economic Growth Following Budget Plan; Ratings Affirmed At 'BBB/A-2', Oct. 26, 2018
- Intesa 'BBB-/A-3' Ratings Affirmed On Agreement To Acquire Veneto-Based Troubled Banks; Outlook Stable, June 27, 2017

Ratings List

New Rating	
Societa per la Gestione di Attivita SpA	
Issuer Credit Rating	BBB/Negative/--
Senior Unsecured	BBB

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. 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.