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Research Update:

B2Holding Outlook Revised To Positive On Reducing Asset Quality Pressures; 'B+' Rating Affirmed

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Rating Action Overview

- We think B2Holding ASA's (B2) contemplated partnership on its back book in secured assets could ease asset quality pressures and allow for more predictable collection performance going forward.
- The company's results for the third quarter (Q3) of 2021 demonstrated resilient financial performance and, combined with cautious investment activity over 2021, position the company's financial metrics further from covenant thresholds. If executed, the deconsolidated carve-out of the secured book would also likely lead to a material cash inflow.
- We revised our outlook on B2 to positive from stable and affirmed our 'B+' long-term issuer credit rating.
- The positive outlook reflects the valuation of B2's secured nonperforming loans (NPLs) and real estate owned (REO), supported by the contemplated partnership, and an improving liquidity profile.

Rating Action Rationale

The contemplated carve-out of the secured book could be a major strategic overhaul and stabilize financial performance. After large-scale purchases of secured assets in recent years culminated in material revaluation losses over 2019-2020, B2's secured asset franchise weighed on the rating because we saw a risk of further material revaluation. The revaluation risk also related to the broader secured collection strategy that led to an increasing volume of REO-–approximately Norwegian krone (NOK) 1.2 billion, equivalent to 11% of the book value of purchased loan portfolios as of Q3 2021. The contemplated carve-out of its secured back book, along with potential co-investment structures for new investments in secured assets, implies a strategic re-focus on core unsecured markets, where B2 has a strong market position in Northern and Eastern Europe. In our view, this could lead to more stable financial performance. Similarly, co-investments could result in more manageable access to secured portfolios, too large for B2 to manage on its own. The share of more stable servicing revenue could also increase if B2 continues to service the co-investments. The final effect on the company's creditworthiness will depend on the agreed terms, future financial policy, and strategic focus over 2022. We note, however, that this could also reduce B2's geographic and asset class diversification and reduce its flexibility to deploy capital on its own book.

B2's financial performance in Q3 2021 was marked by solid collection performance and cautious portfolio purchases. With Q3 2021 cash revenue and EBITDA on a similar level to Q3 2020, we expect B2's 2021 financial metrics to post slight improvements over 2020. However, a stabilization of revenue in 2022 would require increased investment activity. As such, we expect portfolio purchases of about NOK1 billion over 2021 and a material uptick in 2022, when we expect market activity to recover. Purchases in 2022 should also reverse the trend of decreasing expected remaining collections. B2's cautious investment activity reduced its debt to EBITDA to 2.4x compared to 3.0x at end-2020. We expect our S&P Global Ratings-adjusted gross leverage ratio (debt to cash-adjusted EBITDA) will remain at about 3x over 2022, at the better end of our peer group. Although total REO increased again in Q3 2021 as a result of repossessions, we also expect sales activity to pick up in the coming quarters.

The company's comfortable liquidity profile will support increasing portfolio purchases over the coming quarters. B2 used its bridge facility and RCF for the repayment of its October 2021 bond maturity, although we would expect a new bond issuance to repay the bridge facility and increase headroom under the RCF. We also note the continuously improved covenant headroom over 2021, which increases financial flexibility for future portfolio purchases. The increased equity ratio of 32.6% as of Q3 2021, sufficiently above the 25% equity ratio covenant, supports the announced dividend and share repurchase program totaling about NOK150 million.

Outlook

The positive outlook reflects improved collection performance on the company's secured NPLs and REO, combined with an improving liquidity profile. The proposed deconsolidated co-investment partnership on B2's secured back book should remove uncertainties regarding the secured collection performance and potentially facilitate future co-investments into secured assets. These factors could lead to a higher rating over the next 12 months.

Upside scenario

We could consider an upgrade if the economic recovery continues to support collateral values in B2's secured book, while B2 makes progress in disposing its REO at prices above book value. Confidence on the valuation of the secured assets and REO could also come from the considered co-investment structure, if it resulted in B2 showing a more stable collection performance on its own book going forward, while not harming its flexibility in deploying capital.

Although less likely, we could also consider an upgrade if the future focus on unsecured collections and servicing leads to a better leverage profile, with an S&P Global Ratings-adjusted gross leverage improving sustainably to about 2.5x.

Downside scenario

We would revise the outlook back to stable if the partnership does not materialize or if the new structure would harm B2's competitive position or financial profile to an extent that would not be commensurate with a higher rating, considering peer relativities.

Company Description

Founded in 2011 and domiciled in Norway, B2 has quickly become a well-established pan-European debt purchaser. It has expanded through a combination of organic growth and a number of bolt-on acquisitions of local collection platforms. It owns unsecured and, to a lesser extent, secured claims in 22 countries across Europe with a book value of about NOK13 billion (€1.3 billion) as of year-end 2020.

Our Base-Case Scenario

Assumptions

Our base-case scenario for 2021 and 2022 incorporates the following key assumptions:

- Our financial projections do not consider the contemplated partnership on secured assets because negotiations are ongoing.
- Revenue to increase slightly above 2020 levels in 2021 and by about 2%-5% to about NOK3.2 billion at end-2022.
- Reported EBITDA to increase slightly to about 1.5 billion in 2022.
- Cautious capital deployment of about NOK1 billion in 2020 but up to NOK3 billion over 2022 on expected strong supply.

Based on these assumptions, we forecast the following credit metrics for year-end 2022:

- Gross debt to adjusted cash EBITDA of 2.8x-3.2x (approximately 7x-8x when EBITDA is not adjusted for the add-back related to portfolio amortization).
- Funds from operations (FFO) to debt of about 24%-26%.
- Adjusted EBITDA cash interest coverage of 5.5x-6.5x (2x-3x when EBITDA is not adjusted for the add-back from portfolio collections).
- Debt to tangible equity of about 2.6x.

Covenants

B2 is subject to maintenance covenants under its bond and RCF documentation. We expect B2 will remain compliant with all covenants under our base case.

RCF covenants:

- Equity ratio: greater than 25.0% (32.6% in September 2021); and
- Total loan-to-value ratio: less than 75% (65.4% in September 2021).

Bond covenants:

- Net interest coverage ratio: greater than 4.0x (6.2x in September 2021);
- Leverage ratio: less than 4.0x (2.2x in September 2021); and

Secured loan-to-value ratio: less than 65% (17% in September 2021).

Ratings Score Snapshot

Issuer Credit Rating: B+/Positive/--

Business risk: Fair

- Country risk: Intermediate
- Industry risk: Moderately high
- Competitive position: Fair

Financial risk: Aggressive

- Cash flow/Leverage: Aggressive

Anchor: bb-

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Fair (no impact)
- Comparable rating analysis: Negative (-1 notch)

Stand-alone credit profile: b+

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Financial Institutions | General: Issue Credit Rating Methodology For Nonbank Financial Institutions And Nonbank Financial Services Companies, Dec. 9, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate

Entities, Nov. 13, 2012

- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- B2Holding ASA, August 10, 2021
- Norway-Based Debt Purchaser B2Holding ASA Outlook Revised To Stable On Improving Covenant Headroom; 'B+' Rating Affirmed; Feb 12, 2021
- Europe's Distressed Debt Purchasers Look To Steady The Ship In 2021, Feb. 12, 2021
- Ratings Actions On Eight European Distressed Debt Purchasers Reflect Tough Environment For The Sector Amid COVID-19, April 15, 2020

Ratings List

Ratings Affirmed; Outlook Action

	To	From
B2Holding ASA		
Issuer Credit Rating	B+/Positive/--	B+/Stable/--
Ratings Affirmed		
B2Holding ASA		
Senior Unsecured	B+	
Recovery Rating	3(60%)	3(55%)

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.