Research Update:

EUROFIMA Outlook Revised To Stable From Negative On Eased Pressure On Capital Adequacy; 'AA/A-1+' Ratings Affirmed

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Overview

- During the past 1.5 years, EUROFIMA European Co. for the Financing of Railroad Rolling Stock's risk-adjusted capital ratio (RAC) improved, owing to the company's efforts to diversify its very concentrated loan book and stronger equity generation.
- EUROFIMA's liquidity ratios remained strong thanks to the entity's conservative financial policies, such as matching the maturity of its liabilities to its assets.
- We therefore revised our outlook on EUROFIMA to stable from negative and affirmed our 'AA/A-1+' long- and short-term issuer credit ratings on the institution.

Rating Action

On June 11, 2024, S&P Global Ratings revised its outlook on Switzerland-based EUROFIMA European Co. for the Financing of Railroad Rolling Stock to stable from negative. At the same time, we affirmed our 'AA/A-1+' long- and short-term issuer credit ratings on the company.

Outlook

The stable outlook reflects our expectation that EUROFIMA's capital adequacy will remain strong, and the institution will preserve its relevance in the market, while funding and liquidity will remain robust.

Upside scenario

We could raise the long-term rating if EUROFIMA meaningfully expands its member base and consequently disbursements to new borrowers, while retaining its strong capital adequacy position.

Downside scenario

We could lower the long-term rating if the concentration in EUROFIMA's lending portfolio increases, which could stress the RAC ratio unless retained earnings or a capital injection mitigate the pressure.

Rationale

The outlook revision reflects the improved RAC ratio and the institution's ability to expand in 2023.

We project EUROFIMA's RAC ratio will hover near 10% and remain in the strong category. The company registered a higher adjusted RAC ratio of 10.1% as of April 30, 2024, from 9.3% in December 2022, which is consistent with a strong capital adequacy assessment. We continue to adjust the RAC ratio to capture the very high concentration of EUROFIMA's lending book in four sovereigns–-Switzerland, Belgium, Spain, and Italy.

The RAC ratio improvement came mainly from the reduction of the Switzerland- and Belgium-based loan portfolio, and new loans to a reactivated shareholder in the Czech Republic. Swiss Federal Railways (SBB) repaid some of its loans as did SNCB (Belgium), both helping reduce the concentration adjustment on the RAC ratio.

In 2023, EUROFIMA's loan portfolio increased 3.5% with the Czech Republic's reactivation. We project moderate loan growth for 2024-2025. The institution faces direct price competition from commercial banks and other multilateral lending institutions (MLIs). Some larger shareholders finance themselves through established bond programs or with other banks, and smaller ones have not been able to borrow due to risk considerations and capital constraints. Four borrowers have underpinned EUROFIMA's niche mandate--namely the state-owned railways of Spain, Belgium, Italy, and Switzerland. These accounted for about 85% of the company's total equipment financing contracts as of April 30, 2024.

We expect that, in 2024-2025, EUROFIMA will continue a financing framework to reactivate lending with existing shareholders and attracting new regional ones. In our view, this could add diversification and support the entity's strong capital assessment.

Our strong enterprise risk profile assessment factors in our view of EUROFIMA's management and governance and the track record of borrowing members affording the institution's preferred creditor treatment (PCT). Our PCT assessment considers whether, over the past 10 years, a borrowing country has been in arrears (either interest or principal overdue by 180 days or more). Based on our definition of arrears, no country to which EUROFIMA lends has been in arrears over this period. As such, we consider the institution's PCT assessment very strong and all its borrowing members qualify in the strongest PCT category.

We assess EUROFIMA's governance and management expertise as strong because of the organization's well-balanced shareholding structure, its members' high ranking in World Bank governance indicators when compared with other MLIs, and its conservative risk management policies. Also, the average rating on its lending portfolio is one of the highest among rated MLIs.

EUROFIMA's six-month liquidity ratio remained robust, with a 12-month ratio at 1.53x as of Dec. 31, 2023, largely unchanged from a year earlier. Our liquidity ratios indicate that the company would meet its financial obligations over one year from its own liquidity, supported by the absence of scheduled loan disbursements in that time.

EUROFIMA's investor base is well diversified, and it regularly issues predominantly on the euro and U.S. dollar markets. We think the company does not overly rely on one market and regularly taps into the capital markets. EUROFIMA's one-year funding gap, calculated as maturing assets divided by maturing liabilities, was 1.46x at the Dec. 31, 2023.

We base our ratings on EUROFIMA on the entity's strong stand-alone enterprise risk profile and very strong stand-alone financial risk profile. Combining these assessments, we derive our stand-alone credit profile (SACP) of 'aa-'. The ratings on EUROFIMA include potential extraordinary support from shareholders rated equal to or above the 'aa-' SACP. Therefore, although EUROFIMA has callable capital totaling Swiss franc (CHF) 2.08 billion, we incorporate only CHF1.52 billion of eligible callable capital into our assessment and arrive at the enhanced financial risk profile assessment of extremely strong, which leads us to apply a one-notch uplift to the issuer credit rating above the SACP. Our adequate policy importance assessment leads us to cap the uplift at one notch.

Ratings Score Snapshot

Issuer credit rating	AA/Stable/A-1+
Stand-alone credit profile	aa-
Enterprise risk profile:	Strong
Policy importance	Adequate
Governance and management expertise	Strong
Financial risk profile:	Very strong
Capital adequacy	Strong
Funding and liquidity	Very strong
Extraordinary support	+1
Callable capital:	+1
Group support:	0
Holistic approach	0

Related Criteria

- Criteria | Governments | General: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Jan. 31, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Supranationals Special Edition 2023, Oct. 13, 2023
- Supranationals Edition 2023: Comparative Data For Multilateral Lending Institutions, Oct. 12, 2023
- Introduction To Supranationals Special Edition 2023, Oct. 11, 2023

Ratings List

Ratings Affirmed		
EUROFIMA European Co. for the Financing of Railroad Rolling Stock		
Senior Unsecured	AA	
Commercial Paper	A-1+	
Ratings Affirmed; Outlook Action		
	To	**From**
EUROFIMA European Co. for the Financing of Railroad Rolling Stock		
Issuer Credit Rating		
Foreign Currency	AA/Stable/A-1+	AA/Negative/A-1+

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.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.