

Fitch Downgrades Grupo ACP's IDR to 'B'; Outlook Negative

Written by Australian Business

NEW YORK--([BUSINESS WIRE](#))--Fitch Ratings has downgraded Grupo ACP Inversiones y Desarrollo's (ACP) Viability Rating (VR) and long-term Issuer Default Rating (IDR) to 'b' and 'B', respectively. Fitch has also revised ACP's Rating Outlook to Negative. A complete list of rating actions is provided at the end of this press release.

KEY RATING DRIVERS

VR, IDRS

The downgrade of ACP's VR and IDR is driven by ACP's losses (mainly due to foreign exchange volatility during 2Q13 in Peru and the region) and the weakness of its dividend revenues caused by the performance of its main operating subsidiary and revenue generator, Mibanco. In addition, the delay in the implementation of planned changes to ACP's legal structure, which would eventually lead to a significant capital injection, has contributed to weaken ACP's financial standing and resulted in less financial flexibility and the maintenance of high double leverage.

Mibanco's performance deteriorated in 1H2013, as credit costs (loan loss provisions) increased significantly and, along with lower operating revenues, drove profitability down to 0.74% (ROAA). This should be close to the bank's bottom profitability, but recovery is not expected to be swift; the management expects results to recover within two years.

At end 2Q13, ACP breached the indebtedness covenant of its 10- year, US\$85 million corporate bond due on 2021. Moreover, given MiBanco's declined profitability and the slow progress of its investments in Mexico and Brazil, it expects to breach the debt-service covenant by year end.

Accordingly, ACP requested the bondholders a temporary waiver to the two covenants. The waiver was approved on Sept. 26, 2013, so that ACP will have to comply with the first covenant by June 2014 and the second covenant by December 2014. ACP has proposed a capital injection - a part of its organizational restructuring to be completed between 4Q13 and 2Q14 - as a remedy to the covenants breach. Said capital injection was delayed in

part due to pending regulatory approvals.

In Fitch's opinion, ACP could be in compliance with the indebtedness covenant if the capital injections are completed; and would comply with the debt service covenant thanks to its expected cash reserves on hand, after capitalization and other corporate restructuring actions underway. Bolstering dividends will be much more challenging as it requires a significant improvement of its operating subsidiaries' performance but the company would have room to breathe until end-2015; management projections expect that ACP's cash needs will be covered until 2016.

ACP's management reports advanced negotiations to capitalize the group. However, if the capitalization is delayed or reduced, ACP would have limited cash flow to fulfill its financial commitments, hence the Negative Rating outlook.

SUPPORT RATINGS

ACP's Support Rating of '5' and Support Rating Floor (SRF) of 'NF' indicate that Fitch believes external support cannot be relied upon due to the entity's non-profit nature.

RATING SENSITIVITIES

VR, IDRs

Failure in the entity's financial restructuring plans and continuous deterioration of their key operating companies, together with a higher leverage would place downward pressure on ACP's ratings.

Should the capitalization plan and other management action fail, be for a significantly lower amount than expected or be delayed beyond 1Q14, ACP's ratings could be downgraded by one or more notches.

If and when the capitalization is completed, Fitch would revise ACP's Outlook to Stable and reassess its ratings.

SUPPORT RATING

Changes to the support rating and SRF would reflect a change in Fitch's view of the Government's willingness to support the group.

Fitch has taken the following rating actions on ACP:

--Long-term foreign currency IDR downgraded to 'B' from 'BB-'; Outlook Revised to Negative;

--Short-term foreign currency IDR affirmed at 'B';

--Long-term local currency IDR downgraded to 'B' from 'BB-'; Outlook Revised to Negative;

--Short-term local currency IDR affirmed at 'B';

--VR downgraded to 'b' from 'bb-';

--SR affirmed at '5';

--SRF affirmed at 'NF'.

Additional information is available at ' www.fitchratings.com '.

Applicable Criteria and Related Research:

--'Global Financial Institutions Rating Criteria' (Aug 15, 2012);

--'Rating FI Subsidiaries and Holding Companies' (Aug. 10, 2012);

--'2013 Outlook Andean Banks' (Dec. 14, 2012).

Applicable Criteria and Related Research:

Global Financial Institutions Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686181

Rating FI Subsidiaries and Holding Companies

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=679209

2013 Outlook: Andean Banks

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=696215

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Solicitation Status

http://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=803691

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