Banque Ouest Africaine de Developpement (/gws/en/esp/issr/96173827)

FitchRatings

Fitch Affirms Banque Ouest Africaine de Developpement at 'BBB'; Outlook Stable

Fitch Ratings-London-18 May 2017: Fitch Ratings has affirmed Banque Ouest Africaine de Developpement's (BOAD) Long-Term Issuer Default Rating (IDR) at 'BBB' with a Stable Outlook and Short-Term IDR at 'F2'. Fitch has also affirmed BOAD's senior unsecured notes at 'BBB'.

BOAD's ratings are based on the support Fitch believes it would receive from its main shareholders, Banque Centrale des Etats d'Afrique de l'Ouest (BCEAO), which is the regional central bank for the West African Economic and Monetary Union (Union Economique et Monetaire Ouest-Africaine - UEMOA in French) and owns 47.2% of BOAD's capital. The ratings also reflect potential support from its regional member states (RMS), each of which own 6% of BOAD's capital. These are Benin, Burkina Faso, Cote d'Ivoire (B+/Stable), Guinea Bissau, Mali, Niger, Senegal and Togo.

KEY RATINGS DRIVERS:
Fitch assesses BOAD's shareholders' capacity to support the bank at 'BBB-', in line with the weighted average credit quality of its two key shareholders, BCEAO and Cote d'Ivoire, which together account for 53.1% of the bank's capital.

We estimate that BCEAO's credit quality is significantly higher than that of its RMS. This assessment is mainly based on the central bank's monetary arrangements with France, which provide a privileged and extraordinary access to financing in euros. Our assessment of BCEAO's credit quality also incorporates the ratings of Cote d'Ivoire, UEMOA's largest economy and the only RMS rated by Fitch.

BCEAO's propensity to support BOAD translates into an upward adjustment of one notch over the assessment of shareholders' capacity to support. The central bank plays an instrumental role in BOAD's operations, ensuring the timely disbursement of capital and holding a significant share of its liquid assets. In addition, BOAD has privileged access to BCEAO's refinancing window, a characteristic it shares only with the European Investment Bank within the supranationals universe.

BOAD operates in a high-risk business environment, in Fitch's view. Consistent with its mandate, BOAD mostly extends loans to or guaranteed by the eight UEMOA sovereigns, which are characterised by very low average credit quality and income per capita. In addition, BOAD's medium-term strategy is marked by a rapid growth of loans outstanding, at a pace of 10% on average per year. However, Fitch expects BOAD to remain centred on sovereign exposures, on which it benefits from a preferred-creditor status, and to maintain strong levels of concessional lending disbursements, therefore mitigating the inherent risks in its high-risk strategy.

Our solvency assessment of 'bbb' reflects BOAD's excellent capitalisation and high risk profile. Fitch expects BOAD's lending growth to be mostly financed by debt, as already evidenced by BOAD's USD750 million bond issuance in May 2016, which will exert pressure on its capitalisation metrics. Fitch expects a depletion of the bank's equity/adjusted assets ratio in the coming years, although we expect it to remain slightly above 25%.

BOAD's high-risk profile assessment reflects its high credit-risk exposure, relatively high concentration risk, adequately-managed exposure to market risks as well as its moderately-conservative risk management policies.

The average credit rating of BOAD's loans is very low speculative grade (B- in December 2016), highlighting its exposure to low credit-quality sovereigns. Fitch does not expect any positive evolution in BOAD's loans average ratings in the coming years, despite a slight improvement in the credit quality of BOAD's private-sector exposures in recent years.

With a NPL ratio of 2.3% of gross loans in 2016, BOAD's loan performance was sound relative to its challenging operating environment, evidencing the strong preferred-creditor status it benefits from on its sovereign exposures. There were some payment delays on sovereign loans until 2015, but BCEAO ensures that all loan maturities and interest payments due by RMSs are honoured. As loans disbursed during its previous expansion periods mature, Fitch expects a slight deterioration in BOAD's NPL ratio in the coming years, of around 4%.

Fitch expects concentration to remain higher than BOAD's sub-regional peers, with the five largest exposures forecast to represent 50% of loans (2016: 49%). This is due to BOAD's focus on sovereign lending. The limited number of sovereign borrowers makes it difficult for BOAD to diversify its portfolio. This translates into large single exposures, in particular to Togo, Niger and Benin.

Fitch assesses BOAD's vulnerability to market risks as medium risk. BOAD's loans are entirely denominated in CFA francs, but an increasing share of its debt is denominated in USD. BOAD mitigates its foreign exchange (FX) risk using several hedging instruments, which almost fully offset the impact of FX variations on future revenue generation. A CFA franc devaluation against the euro would be potentially detrimental for BOAD, but Fitch considers the risk as very remote given the stability of the monetary agreement between France and UEMOA that underlies the CFA franc/euro parity.

BOAD abides by maximum borrowing limits, which cap outstanding debts at 300% of its shareholders' equity. This is moderately conservative compared with peers, but Fitch considers that prudential rule will effectively limit the bank's debt-funded lending growth in the coming years. However, liquidity rules are relatively loose, as the bank must in practice maintain liquidity cushion covering at least nine months of net cash outflows (compared with 12 months for most peers). Fitch's assessment of BOAD's medium-risk management policies also considers the high level of competence of the bank's management personnel.

BOAD's liquidity metric is a rating strength. At 232% in 2016, short-term debt coverage by liquid assets is exceptionally high. This results from the temporary placement of BOAD's 2016 bond proceeds into investment securities and regional banks' deposits accounts. Fitch expects the bank to maintain full coverage of its short-term liabilities in the coming years, albeit on a declining trend. In addition, BOAD's privileged access to BCEAO's refinancing window considerably enhances the bank's liquidity profile. The high volume of liquid assets is offset by their weak quality, reflecting the low quality sovereigns and banks invested in.

RATING SENSITIVITIES
The Stable Outlook reflects Fitch's expectation that the rating of key shareholders will remain stable.

BOAD's IDRs are driven by its 'BBB' support rating. In line with Fitch's supranationals criteria, the maximum possible credit uplift over BOAD's intrinsic rating is limited to 3 notches. Hence, the potential for an upgrade of BOAD's IDRs is limited, as it could only follow an improvement in BOAD's intrinsic rating of four notches or more, or a combined upgrade of BOAD's support and intrinsic ratings.

BOAD's ratings are sensitive to any evolution BCEAO's credit quality or a multi-notch change in Cote d'Ivoire's ratings. In particular, a weakening in the monetary agreements between France and UEMOA would be ratings negative.

A marked deterioration in BOAD's intrinsic rating, which could stem from a deterioration in BOAD's capitalisation resulting from higher than expected lending growth or a softening of its self-imposed prudential rules would be rating negative.

KEY ASSUMPTIONS
The ratings and Outlooks are sensitive to a number of assumptions. In particular, Fitch assumes that the average sovereign rating of the seven non-rated countries of the UEMOA is very low speculative grade. It also assumes that the French treasury will honour its commitment to provide liquidity to BCEAO and preserve the convertibility of the CFA franc into euro in the event of a depletion of its international assets.

Contact:
Primary Analyst
Vincent Martin
Director
+44 20 3530 1828
Fitch Ratings Limited
30 North Colonnade
London E14 5GN

Secondary Analyst
Eric Paget-Blanc
Senior Director
+33 1 44 29 91 33

Committee Chairperson
Gordon Scott
Managing Director
+44 20 3530 1075

Media Relations: Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: peter.fitzpatrick@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria
Supranationals Rating Criteria (pub. 27 Jul 2016) (https://www.fitchratings.com/site/re/881783)

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