



Credit Outlook

1 April 2021

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UK Supreme Court ruling on equal pay is credit negative for ASDA and other UK grocers

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On 26 March, the UK Supreme Court upheld previous rulings that supermarket claimants bringing an equal pay lawsuit against [ASDA](#) (Bellis Finco Plc, Ba2 stable) can directly compare their roles to the staff employed at ASDA's depots. The court's decision not to overturn previous rulings is credit negative for ASDA. If the final decision in this long-running litigation finds in favour of the claimants, the company may ultimately have to pay compensation to store workers and will face ongoing higher labour costs and potentially set a precedent for the ongoing claims of other UK companies, including other retailers.

Lawyers for the claimants reportedly said in July that the UK's five supermarket chains¹ could have to pay out £8 billion if the legal actions, which started more than a decade ago, are successful. They estimate that ASDA could be forced to pay compensation of between £10,000 and £20,000 to each claimant, implying compensation up to £860 million a year, which theoretically could more than halve ASDA's Moody's-adjusted EBITDA of around £1.2 billion for the last 12 months to 30 June 2020. ASDA's Ba2 rating and the stable outlook do not factor in any significant cash outflow related to the equal pay claim.

However, Asda has made no provision in its accounts on the basis that the company's directors do not consider any potential liability as probable. Furthermore, ASDA believes that it is not possible to reasonably estimate any loss or range of loss that may arise from these proceedings. We understand that the company has substantial factual and legal defences to these claims and that the case would likely be drawn out over several years, with no resolution likely over the next 12-18 months.

Additionally, we understand that [Walmart Inc.](#) (Aa2 stable), which in October 2020 agreed to sell a majority stake in ASDA agreed to indemnify the purchaser with respect to certain costs and losses incurred by ASDA in connection with equal value claims filed with employment tribunals up to an agreed cap. The Issa Brothers, owners of convenience store chain EG Group, and UK private-equity firm TDR Capital LLP, were the purchasers of the stake.

As a result of these indemnity arrangements, we currently believe that even if ASDA is ultimately unsuccessful in defending any of the equal value claims, its credit ratios are unlikely to be greatly affected. We understand that the next step is for the employment tribunal to begin the process of determining if the roles at ASDA's stores and at its distribution sites are of equal value. This will probably take years to work its way through the court process.

ASDA claims that more than 40,000 mostly female store workers cannot compare their jobs with those of the mostly male workers at its distribution centres, who are paid more, because the roles require different skills. Hearings in other courts will determine whether the work of the claimants in ASDA's stores is of equal value in terms of the demands of their jobs to that of employees working in ASDA's distribution centres. The courts will also determine whether the differences in pay and terms and conditions between the different jobs can be objectively justified. We understand that hourly pay rates in stores are the same for male and female colleagues, which is also the case in distribution centres.

ASDA's capital structure is relatively highly levered compared to other rated grocers, with Moody's-adjusted gross initial leverage of 5.3x in the last 12 months to 30 June 2020. However we expect it to improve to 4.4x by the end of 2022, driven by broadly stable EBITDA, positive free cash flow and moderate debt amortisations.

Although the ASDA case does not predetermine the outcome of the similar claims against other UK-based businesses, including but not limited to other UK grocers, it sets a precedent that the courts would have to consider when evaluating other cases.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Endnotes

¹ ASDA, [Tesco Plc](#) (Baa3 stable), [Wm Morrison Supermarkets plc](#) (Baa2 stable), J. Sainsbury plc and the Co-op.

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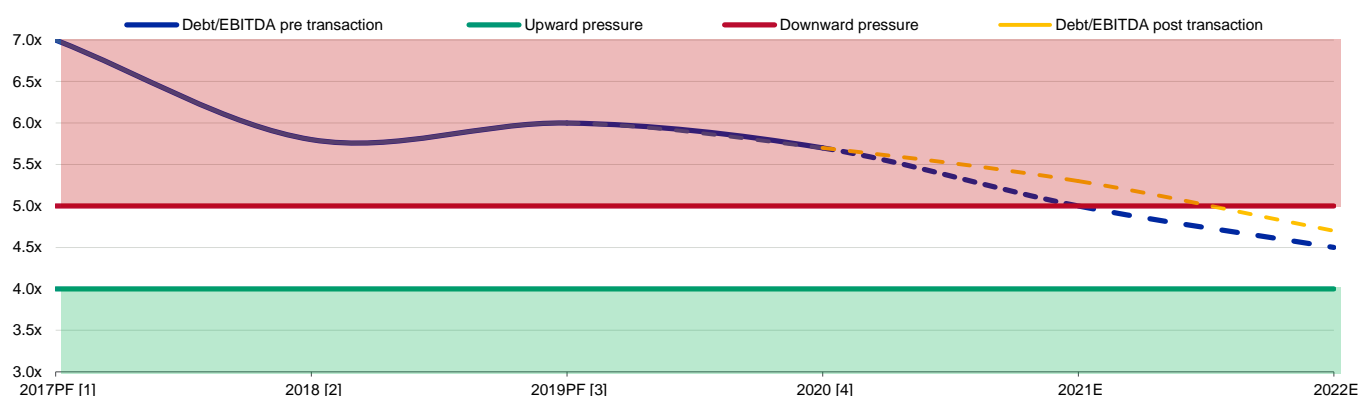
Zacapa's term loan B add-on strengthens liquidity, a credit positive despite increased leverage

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On 26 March, [Zacapa S.a.r.l.](#) (B2 stable), the parent and 100% owner of Ufinet LatAm, S.L.U., announced a \$70 million add-on to its existing \$660 million term loan B, due 2025. Despite increasing the company's leverage, the transaction will increase its liquidity, a credit positive. Proceeds will be used to fund success-based capital expenditure and opportunistic M&A.

Zacapa's leverage, as measured by Moody's-adjusted-gross-debt-to-EBITDA ratio, will increase 0.3x to 5.3x this year (see exhibit). Although Zacapa's leverage is above our guidance for its B2 rating, we expect that the company will deleverage in 2022 to below 5.0x on the back of solid double-digit EBITDA growth and because part of the proceeds will likely be used for M&A, which will provide incremental EBITDA and synergy opportunities.

Leverage expected to decrease below 5.0x in the next 18 months Moody's-adjusted gross leverage



[1] Pro forma debt for the new capital structure

[2] 2018 numbers are based on management accounts and are not fully comparable with Moody's adjusted numbers for 2019 based in audited accounts

[3] Pro forma for the acquisitions of Netell and Reytell

[4] Based on unaudited management accounts

Sources: Moody's Financial Metrics™ and Moody's Investors Service forecasts

Liquidity will be reinforced post transaction. We forecast that the company will have around \$90 million of cash by year-end 2021, and access to a fully undrawn \$93.5 million revolving credit facility maturing in 2023. These liquidity sources will allow the company to grow organically by investing in network expansion and in strategic new verticals with growing end-markets such as datacenters, towers and fibre-to-the-home (FTTH).

We estimate reported capex will remain elevated this year at around \$70 million (25% over sales), but could increase depending on new potential projects identified by the company. Part of the liquidity sources could also be used to acquire companies to reinforce its competitive position in current markets or to expand into new growth markets/segments.

The company has reported strong 2020 results, in line with our expectations. Revenue and EBITDA (as reported by the company) have increased by 9% and 15%, respectively (16.5% and 21.3% excluding FX negative effects). The company has benefitted from strong performance in the Transmission Services segment (around 20% growth), and double-digit growth in Leased Infrastructure (around 11%). Reported EBITDA margins have improved by 300 basis points to around 52% in 2020, benefitting from operating leverage. We estimate that 2021 revenue and reported EBITDA will increase by around 15%-17% because of strong commercial activity and new business wins.

The B2 rating is also supported by [Enel S.p.A.](#)'s (Baa1 stable) 21% ownership of the company (Cinven owns the remaining 79%). The strategic partnership with Enel allows Ufinet Latam to pursue a targeted geographic expansion. Enel's geographic footprint is highly complementary, with a significant presence in countries where Ufinet Latam has little or no infrastructure (most importantly, Brazil, Argentina, Chile, Mexico and Peru). We also acknowledge that Enel has a call option to acquire 100% of Ufinet Latam until 31 December 2021, which, if exercised, could provide further support to Zacapa's credit quality.

Zacapa S.a r.l. is the parent and 100% owner of Ufinet Latam S.L.U., a carrier-neutral fiber network provider operating in 17 Latin American countries. In 2019, Ufinet Latam reported revenue of \$233 million and company-adjusted EBITDA of around \$114 million.

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China's debt guidance is credit positive for enterprises owned by local governments

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On March 26, the central State Owned Assets Supervision and Administration Commission (central SASAC) of [China](#) (A1 stable) published guidance for local state-owned enterprises' (SOEs) debt and risk management. The guidance is designed to address contingent liability risks facing regional and local governments (RLGs) and is credit positive for rated non-financial SOEs owned by the RLGs because it requires the RLGs to have a closer oversight on SOEs' debt and leverage. It will also compel SOEs to reduce debt-funded expansion and to move away from high-risk or low-return noncore businesses.

The guidance was published in the wake of recent defaults by some local SOEs owned by RLGs. The guidance directs local SASACs to tighten supervision and borrowing of local SOEs to prevent these SOEs getting into financial distress. Moreover, it requires RLGs to facilitate the debt restructuring of their defaulted SOEs to restore market confidence and prevent contagion risk.

Central SASAC's guidance for RLGs and local SOEs reflects the ultimate control and decisionmaking process that Chinese central government holds over SOEs. It is unlikely that the central government will provide direct financial support for local SOEs. However, if these entities are in financial distress, the central government can direct, mobilize and permit necessary resources to prevent a default. The guidance strengthens the central government's ability to respond to such situation by promoting more uniform and effective supervision and intervention by RLGs, which can prevent SOEs from getting into a distressed situation in the first place.

The guidance puts SOE debt and leverage under closer supervision of RLGs through quantitative risk monitoring and alert mechanisms by local SASACs covering their local SOEs' overall debt level, debt structure, profitability, cash coverage, asset quality and hidden liabilities. The guidance also includes enforcing debt and leverage supervision by SOE classification, imposing stricter limits for highly leveraged SOEs in terms of debt volume and total liabilities/asset ratio. Additionally, it will tailor deleveraging plans for highly leveraged SOEs to bring leverages in line with the industry norm. This mechanism has already been adopted by central SASAC and some RLGs.

If effectively implemented, the guidance will help RLG's control risks by monitoring SOE's operational and financial plans, thereby reducing contingent liabilities risks, especially for RLG'S with highly leveraged SOE sectors. For example, the guidance discourages local SOEs from aggressive debt-funded expansion and encourages more investment in strategically important areas and key sectors essential to national security, industry upgrades, public welfare and the economy. SOEs' investment scale will be based on their financial affordability. In the past, some SOEs placed growth ahead of profitability and financial health by boosting their revenue through aggressive debt-funded expansion or through volume-based business, such as commodity trading.

The guidance also calls for stricter criteria for extending guarantees, especially for those guarantees to unrelated parties and requires RLGs to adopt limits for the use of hybrid securities based on a certain percentage of SOEs' net assets. Hybrid securities such as perpetual bonds have been extensively used by SOEs to lower reported leverage required under accounting standards but without substantially lowering financial risk.

The guidance will not immediately prevent any local SOE defaults because it will take time for RLGs to enforce stronger supervision. For those SOEs that are already in financial difficulties and with weak linkages to government, the risk of financial distress or default remains. For these cases, the guidance requires RLGs and local SOEs to avoid debt evasion and to protect the stability of financial markets. SOEs will enhance information disclosures on substantial events, such as change of shareholder, transfer of assets and significant increases in debt, to protect bond investors.

For SOEs that have difficulties repaying debt on time, RLGs will require them to communicate with creditors in advance on remedies, such debt rollovers or extensions. RLGs can also set up credit protection funds, following the example of the Central SOE Credit Assurance Fund. In July 2020, China Reform, a central government-owned capital operation company, set up a RMB100 billion fund to deal with central SOEs' bond default risk through a market-based approach.

For those defaulted local SOEs that need to be liquidated, RLGs should ensure these SOEs comply with the liquidation process and make timely and accurate disclosures. Local SASACs shall report the situation to the RLGs and direct these SOEs to settle the default, through asset disposals (land, stakes in companies), proactively communicate and reach agreement with creditors.

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Shanghai Electric's proposed nonpublic placement is credit positive

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On 26 March, [Shanghai Electric Group Company Ltd.](#) (SHE, A3 stable) announced plans to raise up to RMB5 billion (\$769 million) through a nonpublic placement to no more than 35 target subscribers, pending regulatory and shareholder approval. The proposed transaction would help diversify the company's funding sources in growing businesses and reduce its need for incremental debt. SHE has carried out large investments in recent years to expand its green business mix.

We expect the proposed equity issuance to lower the company's leverage — as measured by Moody's-adjusted debt/EBITDA — by 0.10x–0.15x by reducing its working capital needs, assuming all other factors remain unchanged. The placement will also support SHE's research and development efforts in noncarbon energy, the industrial internet and digitization, and fund spending in engineering, procurement and construction companies, reducing the need for additional debt in these areas.

According to the draft plan, SHE will issue no more than 1.571 billion shares, or less than 10% of its total capital to new shareholders. Once the transaction closes, [Shanghai Electric \(Group\) Corporation](#) (A3 stable) will remain the company's controlling shareholder with a 49.61% stake. SHE plans to use around RMB1 billion of the placement proceeds to support noncarbon energy power technology research and development; RMB1.28 billion to support smart city and industrial internet platforms; RMB1.25 billion for a coal chemical engineering procurement and construction project; and the remaining RMB1.47 billion to replenish working capital.

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Fire at Pertamina's Balongan refinery raises social risks, a credit negative

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On 29 March, Indonesia's national oil company [Pertamina \(Persero\) \(P.T.\)](#) (Baa2 stable) announced that a fire had broken out at its Balongan refinery tank facilities in West Java. As a precaution, the refinery was shut down, although processing facilities were not affected. Pertamina aims to restore operations at the refinery within four or five days and is investigating the cause of the fire.

The incident is credit negative because the operational downtime will lower the company's earnings and potentially increase its costs related to health and safety issues. Potential costs would include penalties if Pertamina's operational and safety standards did not comply with regulatory or industry standards, compensation to affected individuals or businesses, and higher operational costs to investigate and improve operational and safety standards.

Pertamina expects that supply of refined products to its fuel stations will not be disrupted because it will reroute fuel supply from other refineries such as Cilacap and Trans Pacific Petrochemicals Indotama. Fuel distribution will also be supported by several fuel terminals in West and Central Java.

The Balongan refinery has crude distillation capacity of 125,000 barrels per day, which is equivalent to around 12% of Pertamina's total crude distillation capacity. We expect the incident will lower earnings because of inventory losses since the fire affected some tanks storing oil products, costs to restart and potentially repair the refinery, and lower sales because of refinery downtime.

The extent of losses will be clearer after there is more information on the actual downtime and damage to the refinery as well as the company's and regulators' investigation findings. Pertamina has insurance policies in place that it could claim to mitigate losses caused by the fire. Pertamina's insurance coverage for accidental fires includes inventory losses and damages to the refinery, as well as legal liabilities for injuries and property damage to third parties.

We expect that the fire will not materially harm Pertamina's credit profile because the company has capacity in its financial metrics over 2021-22. Even in a scenario whereby Pertamina's credit metrics deteriorate to the extent whereby its baseline credit assessment (BCA) is lowered by one notch to ba1 from baa3, we expect its Baa2 issuer rating will remain unchanged because of higher rating uplift from government support.

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21Vianet's share repurchase increases pressure on liquidity profile, a credit negative

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On 24 March, [21Vianet Group, Inc.](#) (B2 stable) announced that it had entered into a share repurchase agreement with Tuspark Innovation Venture Limited. 21Vianet, a leading internet and data center service provider in China, will purchase from Tuspark 48.63 million Class B ordinary shares for an aggregate price of about \$260 million. 21Vianet also announced that Tuspark agreed to sell and transfer additional ordinary shares to Beacon Capital Group Inc. If the additional share transfer goes ahead, Tuspark will retain a small shareholding of less than 5% in 21Vianet.

The share repurchase is credit negative because it will increase pressure on 21Vianet's liquidity as the company looks to execute a significant capital spending plan of RMB5-RMB6 billion in 2021.

A change-of-control trigger event on a \$300 million bond due in October 2021 will occur if Tuspark loses its majority voting rights and 21Vianet's bond rating is downgraded by any one rating agency. The first part of the triggering event will be satisfied after completion of the announced transaction because Tuspark is currently the largest shareholder with 50.7% voting rights.

We expect 21Vianet has sufficient cash on hand to cover the accelerated repayment if the change of control trigger occurs. The company's cash balance of around RMB2.7 billion at the end of 2020 (the proceeds from issuance of a \$600 million convertible bond in January 2021) combined with an expected operating cash flow of RMB800-RMB900 million will be adequate to fund over the next 12 months the share purchase of \$260 million, the redemption of its \$300 million bond due in October 2021 and the short-term debt of RMB34 million.

However, we estimate that 21Vianet will need to raise additional financing of RMB2-RMB3 billion in the second half of 2021 if it is to meet its capital spending guidance of RMB5-RMB6 billion for 2021. A large part of 21Vianet's guided capital spending will concentrate on company growth. Therefore, we expect the company will have some control and flexibility over the size and timing of planned spending.

We expect 21Vianet's revenue and adjusted EBITDA to grow by 25% and 29%, respectively, over the next 12-18 months, driven primarily by the increasing utilization of its new cabinets amid favorable industry prospects for internet data centers (IDCs) and cloud services. The company's total cabinets under management increased significantly to 53,553 as of year-end 2020, compared with 36,291 at year-end 2019.

We also expect the company to maintain stable profitability with adjusted EBITDA margins of 27%-29%. Profitability is supported by the stable monthly recurring revenue 21Vianet derives from its IDC business. Monthly recurring revenue per cabinet from this business gradually improved to RMB9,131 for fourth-quarter 2020 from RMB8,822 in fourth-quarter 2019. As a result, we expect 21Vianet's leverage, as measured by adjusted debt/EBITDA, at 5.0x-5.5x over the next 12-18 months.

Because of the ramp-up period required between the construction and the full utilization of new cabinets and projects, we expect 21Vianet to remain free cash flow negative over the next 12-18 months, with a negative EBITDA capital spending/interest coverage ratio.

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Eletrobras' CEO appointment outside succession process signals political interference, a credit negative

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On 24 March, [Centrais Elétricas Brasileiras S.A.](#) (Eletrobras, Ba2 stable) announced its board of directors had appointed Rodrigo Limp Nascimento as the company's new CEO following Wilson Ferreira Junior's resignation in January. The appointment is credit negative for Eletrobras' corporate governance because it shows political interference on the company's previously announced succession plans; Limp had not been recommended by the independent advisor involved in the CEO search.

As a government-owned company, Eletrobras' board of directors is composed by 11 members of which seven are recommended by the Brazilian government as of date. The board must have a minimum quorum of 30% independent members, and all participants are elected by the General Assembly where the government has the majority of votes, according to the company's by-laws.

Despite the limited independent board-level oversight and controls, after the departure of Ferreira Junior, the company's directors unanimously agreed to hire an external advisory firm to assist in the replacement process, considering the professional and technical requirements of the executive position, as well as the provisions of the Government-Controlled Companies Law (13,303/2016). However, Limp, who was appointed by the controlling shareholder and approved by the majority of Eletrobras' board or directors, was not part of the third-party recruiting firm's process that has now been terminated.

The Limp announcement was followed by the resignation of the board member and coordinator of the audit and risk statutory committee, Mauro Gentile Rodrigues Cunha, who publicly stated his opposition to the overruling of the governance process related to the succession plan.

Mr. Limp meets the legal and technical requirements for the position as per the law (13,303/2016). He was also evaluated and recommended by Eletrobras' internal people, eligibility, succession and compensation committee. Limp is the current secretary of electric energy at the Ministry of Mines and Energy and was a director at the national regulator Aneel between May 2018 and March 2020.

This change has the potential to bring a greater focus to the company's regulatory matters since Limp is a former government official with close linkages to the presidency. Additionally, Limp's appointment could be sign of the Brazilian government's commitment to its privatization agenda, as Provisional Measure 1031/2021 gains momentum for congressional approval after Eletrobras was formally included in the National Program for Privatization (PND). The privatization bill proposes a capitalization format, in which the government's 51% ownership interest would be significantly diluted to transform Eletrobras into a true corporation, where its bylaws would be amended to restrict any shareholder representation to no more than 10%.

Eletrobras is the main electric company in Brazil, accounting for 29% of the country's generation capacity and 44% of the installed transmission lines. It has a strategic position for regional and economic development controlled by Brazil's federal government, which holds 51.8% of the company's voting capital and 42.6% of its total capital. The federal government provides guarantees to 14% of Eletrobras' reported debt.

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Archegos default highlights credit-negative risk opacity in banks' prime brokerage activities

On 29 March, [Credit Suisse AG](#) (Credit Suisse, Aa3/Aa3 negative, baa1¹) [announced](#) that “a significant US-based hedge fund” had defaulted on margin calls that it and other banks had made the prior week and that the affected banks were exiting their positions. The same day, [Nomura Holdings, Inc.](#) (Nomura, Baa1 negative) [announced](#) that one of its US subsidiaries could incur a significant loss arising from “transactions with a US client.” Media reports quickly identified the defaulting hedge fund as Archegos Capital Management, whose failure appears to have spurred a series of multibillion dollar trades in the past week by several banks with which it had prime brokerage relationships.

The Archegos default and likely losses incurred by entities like Credit Suisse and Nomura highlight the inherent credit-negative risks and opacities associated with banks' prime brokerage services, particularly when these services are provided to lightly regulated entities with very limited financial disclosures. There is very little public information on the financial position and business activities of Archegos, which appears to be a privately held “family office” entity, and a so-called “tiger cub” Tiger Management offshoot.

The potential financial hit from Archegos exposure is sizeable: Credit Suisse said the loss it will incur from its exit could be highly significant and material to its first quarter results. Nomura estimated the amount of its claim against Archegos at nearly \$2 billion, based on 26 March market prices. On 31 March, we changed our rating outlooks on both [Credit Suisse](#) and [Nomura](#) to negative, partially as a result of the possible risk management weaknesses that were made apparent in their dealings with Archegos.

Other entities that have made statements on their relationship with Archegos are [Mitsubishi UFJ Securities Holdings Co., Ltd.](#) (MUSHD, A1 stable) and [Wells Fargo & Company](#) (Wells Fargo, A2 negative). MUSHD [said](#) that an event at a European subsidiary in relation to a US client could lead to a financial loss of about \$300 million. Wells Fargo [announced](#) that its exposures to Archegos were well collateralized at all times over the past week and that it had not taken any losses in closing out its position.

It appears that Archegos accumulated significant market positions across its prime brokers in just a handful of US- and Asia-Pacific-based public companies, some of whose share prices recently declined suddenly and significantly after a substantial rise in the preceding months. Archegos also is reported to have substantially leveraged its positions using total return swaps and other derivatives.

Prime brokerage is an operationally intensive, and at times balance-sheet intensive, business that has typically been run with a very low tolerance for risk. Prime brokers manage risk by setting advance rates or initial margins that account for the concentrations, liquidity and volatility of the collateral financed, as well as potential exposure on derivative positions. Margin requirements are then updated at least daily, with same-day variation margin calls made, as necessary. Contractual terms of prime brokerage agreements allow a bank to declare a client in default and seize collateral in the event that variation margin calls are not met. Once a prime brokerage client is declared in default at one bank, cross-default provisions allow other prime brokers to also declare the client in default.

One central challenge for prime brokers is the opacity of client positions held at other prime brokers, making it difficult to ascertain the clients' overall financial well-being and exposures. This risk is magnified in the case of lightly regulated clients without substantial public financial reporting requirements, which appears to have been the case for Archegos.

Prime brokers can manage such risks indirectly by requiring elevated margin postings and frequently refreshing these requirements based on changes in the value and riskiness of their clients' holdings and broader market considerations. However, the volatile financial market conditions since the beginning of the coronavirus pandemic can make such margin requirements more difficult to gauge and monitor. Also, prime brokerage is a business in which firms may compete on the terms they offer to clients. It is often prime brokers with the most extensive knowledge, experience and relationships in the underlying financial markets that fare better when required to react quickly to unusual events.

Endnotes

¹ The bank ratings shown in this report are the bank's deposit rating, senior unsecured debt rating (where available) and Baseline Credit Assessment.

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Access Bank's acquisition of Grobank stake supports its plan to be a gateway for trade and payments in Africa

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On 26 March, Nigeria-based [Access Bank Plc](#) (B2/B2 negative, b3¹) announced that it had received approvals from South African and Nigerian regulators for its proposed acquisition of South Africa-based Grobank Limited. Access agreed to buy a 49% initial stake in Grobank in September 2020, followed by a second purchase at a later date to secure a majority holding. Access expects to complete the acquisition of the majority stake by the second quarter of 2021, subject to meeting other conditions.

The proposed acquisition is credit positive for Access because, despite Grobank's relatively small size, it will support Access' franchise and profitability by providing the bank with a platform in the South African market, which is among the largest in Africa. Grobank's total assets were around \$231 million as of December 2018, equivalent to just 1.1% of Access' total assets of \$20.6 billion as of September 2020.

By giving Access entry to the South African market, the acquisition will support the bank's strategy of becoming an aggregator of cross-border transactions across, from and into the African continent, including international payments and remittances, trade finance transactions and correspondent banking dealings. Access aims to capture and support the business flows of large Nigerian companies into key African markets, as well as from large foreign companies into Nigeria.

While this acquisition will not provide Access with scale in the South African banking market, it will allow it to increase its relevance to large international African companies in particular by broadening its footprint to a major African market. Access has pan-African operations, with subsidiaries and clients in 10 African countries, including Nigeria, Ghana, Democratic Republic of Congo, Zambia, Rwanda, Gambia, Sierra Leone, Kenya, Mozambique and Guinea-Conakry.

We expect Access to continue to seek growth opportunities across the continent in the coming years, given constrained business opportunities in Nigeria amid a subdued economic recovery post pandemic. During Access' investor presentation in January, the bank identified the following eight countries as markets of interest for future expansion: Ivory Coast, Senegal, Egypt, Morocco, Algeria, Ethiopia, Angola and Namibia.

Expansion into foreign markets will also gradually increase the diversification of Access' assets and profitability away from Nigeria, which has a difficult and volatile operating environment. We expect African subsidiaries, with the exclusion of the Nigerian operations, to reach around 14% of the group's total assets in the next three to five years, from 7% as of September 2020 (see exhibit).

Access Bank's geographical breakdown by assets

Data as of September 2020

Country	Total assets, NGN millions	% of group assets
Nigeria	6,922,595	82.7%
UK	879,423	10.5%
Ghana	372,274	4.4%
Congo	68,336	0.8%
Rwanda	51,263	0.6%
Zambia	39,397	0.5%
Gambia	23,202	0.3%
Sierra Leone	11,774	0.1%
Guinea	5,441	0.1%

Source: Access Bank Q3 2020 Financial Statements

However, the bank's rapid recent inorganic growth and its future expansion into new markets across the often volatile African economies does not come without risk and can pose some credit, operational and execution challenges. Nonetheless, the relatively small size of recent acquisitions and Access' experience in completing acquisitions moderate the risk.

The Grobank transaction follows other recent acquisitions by Access. In January, Access completed the acquisition of Zambia-based Cavmont Bank Limited, which it merged into Access Bank (Zambia) Limited, its existing subsidiary in Zambia. In September 2020, Access announced that it had received regulatory approvals to start operations in Mozambique under the name Access Bank Mozambique, S.A., and that Access Bank Mozambique had entered a definitive agreement with ABC Holdings Limited (a wholly owned subsidiary of Atlas Mara Limited) to acquire African Banking Corporation (Mozambique).

We expect Grobank's acquisition to have limited financial implications for Access' capitalisation given the small size of any potential injection of capital relative to Access' capitalisation. Grobank had a small 0.1% share of the South African banking system's total assets as of December 2018. Its shareholders include Public Investment Corporation and Fairfax Africa Holdings.

Endnotes

¹ The ratings shown are Access' deposit rating, senior unsecured debt rating and Baseline Credit Assessment.

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Launch of interoperable QR payment link between Vietnam and Thailand is credit positive

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On 26 March, The State Bank of Vietnam and The Bank of Thailand, the respective countries' central banks, launched an interoperable QR code payment service for retail transactions between Vietnam and Thailand. The aim is to facilitate bilateral trade, investment, tourism and the use of local currencies between the two countries, which will be credit positive for Vietnam's and Thailand's banks, especially when cross-border travel resumes, given that tourist flows between both countries totaled around 1.5 million in 2019.

The Interoperable QR payment service is available via mobile banking applications and will facilitate cross-border payments for goods and services. While the effects of the COVID-19 pandemic persist, pent-up demand, a gradual roll-out of vaccination programs and borders reopening would create business opportunities that have the potential to increase banks' noninterest income in areas such as credit card fees as the world gradually recovers. Other benefits include convenience and security for people travelling between countries, catalyzing more growth in tourism and contributing to both countries' progress toward digitisation.

The central banks' cooperation in financial innovation began in 2019 with a memorandum of understanding that expresses an alignment of will to progress toward a more digitalised society. The linkage also represents another milestone for the ASEAN Payment Connectivity Initiative, which connects payment services of ASEAN countries using financial technology to help foster financial integration and growth in the region.

The project is made possible with the collaboration from various stakeholders under the joint supervision of the State Bank of Vietnam and the Bank of Thailand. These include the National Payment Corporation of Viet Nam (NAP AS) and the National ITMX (NITMX) as switching operators. [Viet Nam JSC Bank for Industry and Trade](#) (Ba3 positive, b1 ¹) and [Bangkok Bank Public Company Limited](#) (Baa1 stable, baa1) are the service's settlement banks responsible for cross-border transactions.

Vietnam-based service banks providing the cross-border QR payment service include [Tien Phong Commercial Joint Stock Bank](#) (B1 positive, b1), [The Joint Stock Commercial Bank for Investment and Development of Vietnam](#) (Ba3 positive, b2), [Saigon Thuong Tin Commercial Joint Stock Bank](#) (Caa1 stable, caa2), while Bangkok Bank will provide the service in Thailand.

Several other banks have indicated interest to join as service banks. These include [JSC Bank for Foreign Trade of Vietnam](#) (Ba3 positive, ba3), [Bank of Ayudhya](#) (Baa1 stable, baa3), [CIMB Thai Bank Public Company Limited](#) (Baa2 stable, ba2), [Kasikornbank Public Company Limited](#) (Baa1 stable, baa1), [Krung Thai Bank Public Company Limited](#) (Baa1 stable, baa3), and Thailand's [Siam Commercial Bank Public Company Limited](#) (Baa1 stable, baa1).

Endnotes

¹ The bank ratings shown in this report are the bank's deposit rating, senior unsecured debt rating (where available) and Baseline Credit Assessment.

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Cybersecurity attack disrupts CNA's systems including webpage

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On 23 March, [CNA Financial Corporation](#) (CNA, Baa2 stable), the seventh-largest US commercial lines property and casualty (P&C) insurer, disclosed that it had sustained a cybersecurity attack. The cyberattack is disrupting CNA's business operations, its network and certain systems. Upon discovering the attack on 21 March, CNA disconnected systems from its network as a precaution. It is unclear at this time whether the hackers obtained customer data.

The ongoing nature of the attack and absence of specifics about its dimensions make it difficult to estimate the total business and financial effect on CNA. However, costs are likely to rise the longer the disruption lasts, and CNA could face reputational and regulatory risks. The company has not disclosed whether it has cyber insurance coverage. If it does, policy coverage could reduce CNA's financial cost. CNA's good profitability and solid risk-adjusted capital mitigate the risks and there is no change to the company's ratings, including the Baa2 senior debt rating and A2 insurance financial strength ratings of its primary insurance subsidiaries, or the stable outlook.

The company's website and certain systems continue to have limited functionality. Where possible, CNA has provided workarounds to its employees as temporary measures so that they can continue to underwrite policies and process claims. The situation is evolving as the company works to restore its systems. In its announcement, CNA said that it engaged a third-party forensic team to investigate and determine the full scope of this incident, and reported the incident to law enforcement.

Ransomware attacks [rose](#) during 2020. In addition to having their [own operational risk](#), P&C insurers also provide many industries insurance coverage for cyberattacks. Cyber insurance is a small but fast-growing sector. CNA is the seventh-largest US writer of cyber insurance (see exhibit), but cyber premium accounts for less than 1% of the company's direct premiums written. The attack may damage the company's reputation, particularly for its cyber line of business.

Leading US cyber insurance underwriters, \$ millions

Company name	Senior debt rating	US cyber DPW	US cyber market share	US all lines DPW	US cyber % all lines
Chubb	A3 stable	\$357	15.9%	\$23,531	1.5%
AXA XL	A2 stable	\$230	10.2%	\$6,120	3.8%
AIG	Baa1 review for downgrade	\$227	10.1%	\$14,125	1.6%
Travelers	A2 stable	\$179	7.9%	\$28,017	0.6%
Beazley Insurance Co.		\$151	6.7%	\$428	35.3%
AXIS	Baa1 negative	\$97	4.3%	\$1,826	5.3%
CNA	Baa2 stable	\$95	4.2%	\$11,076	0.9%
BCS		\$76	3.4%	\$442	17.2%
Liberty Mutual	Baa2 stable	\$68	3.0%	\$35,600	0.2%
Zurich	A1 stable	\$65	2.9%	\$6,936	0.9%
Top 10		\$1,545	68.7%	\$128,101	1.2%
Total US P/C Industry		\$2,249	100.0%	\$707,559	0.3%

DPW = direct premiums written. Data is as of year-end 2019, including cyber insurance premiums for standalone and part of a package of policies. BCS Insurance Company provides cyber and privacy loss protection policies to Blue Cross Blue Shield companies; Beazley Insurance Company is a part of Beazley PLC.

Sources: SNL Financial LLC. Contains copyrighted and trade secret materials distributed under license from SNL, for recipients' internal use only, and Moody's Investors Service

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Proposed rule reform would improve EU money market funds' tolerance of extreme market stress

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On 26 March, the European Securities and Markets Authority (ESMA) launched a consultation on possible reforms of the European Union's (EU) money market funds (MMFs) regulation. The review is credit positive for MMFs because it would improve the sector's ability to navigate extreme market stress without government support. However, some of ESMA's proposals could make MMFs less attractive to investors or noneconomical for their sponsors.

ESMA is considering decoupling MMFs' minimum liquidity thresholds from potential withdrawal restrictions. Under its proposal, fund boards would restrict client redemptions only when it was in the fund's best interest. In March 2020, market turmoil at the start of the coronavirus pandemic triggered a wave of redemptions from prime MMFs that reduced their liquidity. To avoid breaching minimum liquidity thresholds that trigger restrictions on withdrawals, portfolio managers were reluctant to cover client redemptions by selling their weekly liquid assets (WLAs), exacerbating short-term market stress.

We expect that the proposed decoupling would limit preemptive withdrawals when liquidity begins to fall. Decoupling would make it easier for portfolio managers to use WLAs to cover redemptions amid market stress. Alternatively, ESMA may increase liquidity buffers and/or define circumstances under which an MMF's ratio of WLAs is allowed to temporarily dip below the regulatory minimum. Although the European MMF industry [held up well](#) overall, these measures would make it more resilient.

ESMA is also considering swing pricing and/or anti-dilution levies.¹ Both measures would impose costs on redemptions and eliminate the advantage of withdrawing early. However, the measures would likely be difficult to implement for intraday trading funds, and even more difficult for funds required to maintain stable net asset values (NAV). The measures would increase the volatility of floating NAV MMFs, restrain their liquidity and make them less attractive to investors, and would depend on better transparency in certificate of deposit and commercial paper markets.

The authorities will review the stable NAV and low-volatility NAV (LVNAV) fund models. LVNAV funds' redemptions were no higher than those of variable NAV MMFs in March 2020. However, a few funds' mark-to-market NAVs came close to exceeding the maximum 20-basis-point collar relative to their amortized NAVs. Their mark-to-market valuations fell partly because they opted to sell longer-dated assets to meet redemptions rather than compromise their weekly liquidity. Under the current rules, breaching the collar would have triggered conversion of LVNAV funds to the variable NAV models, imposing losses on investors and negatively affecting the LVNAV industry.

Authorities will also reconsider sponsor support, which is currently prohibited. Still, some sponsor banks indirectly supported MMFs' liquidity last year by redeeming certificates of deposit before their maturity date. Authorizing direct support would expose sponsor banks to potentially large MMF losses, a source of systemic risk. The alternative of establishing fixed levels of sponsor support in the event of market stress would negatively affect the sponsor's balance sheet, potentially making MMFs uneconomical.

ESMA will consider creating an MMF- and asset manager-funded liquidity exchange facility to reduce runs, and limit reliance on government support during market stress. However, it would reduce MMF yields and their appeal to investors and would require substantial capital. It would be noneconomical.

ESMA will also review rules on MMF rating, will likely strengthen MMF stress-testing and will look again at MMFs' reporting. ESMA's consultation will close on 30 June and we expect ESMA to publish its opinion on the review of the MMF regulation in the second half of 2021.

Endnotes

¹ With swing pricing, a fund adjusts the dealing price for inflows or outflows to take into account the costs of purchasing or selling assets of the fund. With anti-dilution fees, a fund adjusts entry and exit charges.

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Additional spending is set to mitigate pandemic-related scarring of Germany's economic strength

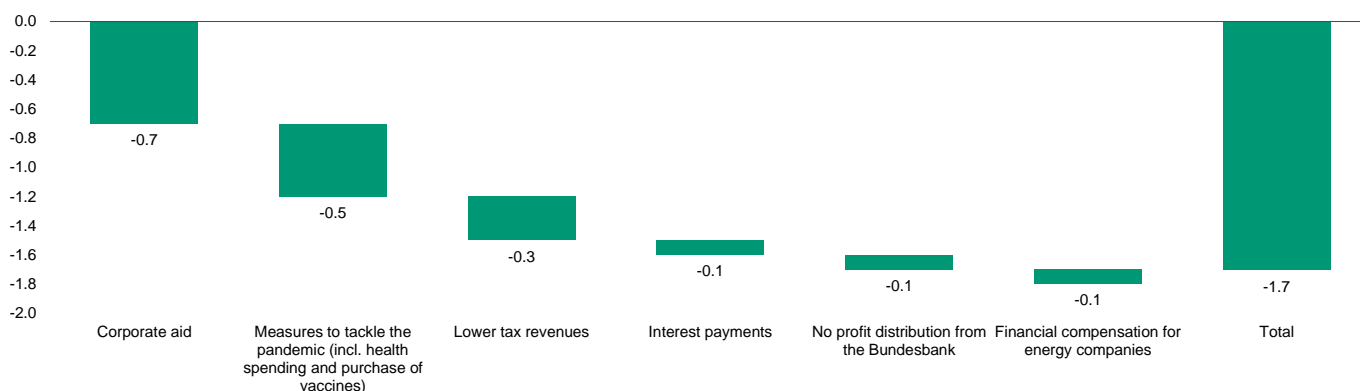
Originally [published](#) on 29 March 2021

On 24 March, the [Government of Germany](#) (Aaa stable) released a supplementary budget worth 1.7% of GDP for 2021 and outlined the first basic parameters of the federal budget for the 2022-25 period. The supplementary budget provides more funding for health-care and vaccines, as well as additional support to the economy following the three-week extension to domestic restrictions until at least 18 April.

The continued support to the economy is set to mitigate pandemic-related scarring of Germany's economic strength. Moreover, although the measures will force the government to trigger the escape clause on public-borrowing limits (the so-called debt brake)¹ in 2021-22 and will delay a reduction in the government's debt-to-GDP ratio by a year, the low borrowing costs offset the effect of the higher debt on Germany's fiscal strength (Exhibit 1).

Exhibit 1

Supplementary budget mainly increases support to the economy and provides more funding measures to contain the pandemic
% of GDP



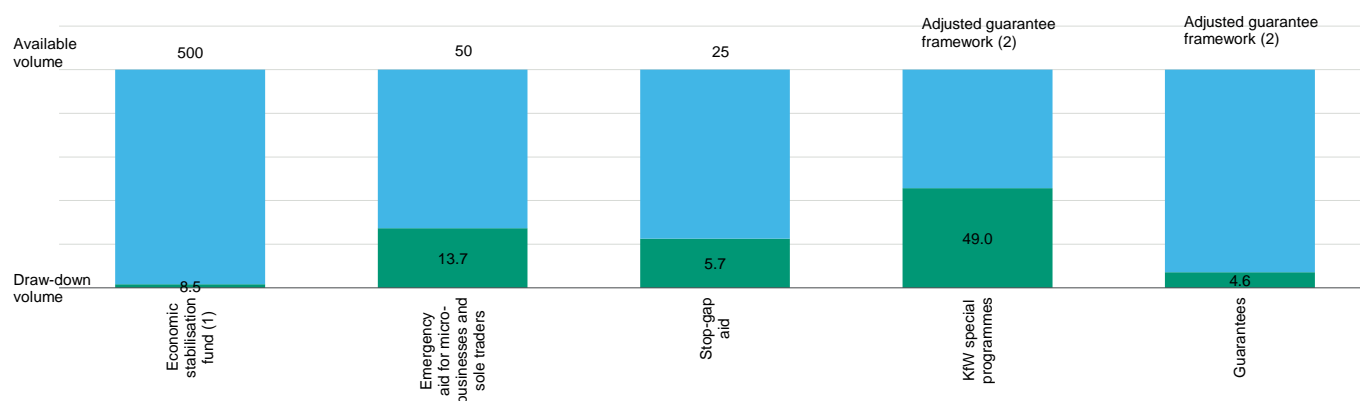
Sources: Ministry of Finance and Moody's Investors Service

The supplementary budget for 2021 increases the cap on borrowing by €60 billion (or 1.7% of GDP) to €240 billion (or 6.9% of GDP) in 2021. However, as in 2020, we do not expect all budget spending will be realised: net borrowing was €131 billion (or 3.9% of GDP) in 2020, well below the cap of €217.8 billion (or 6.5% of GDP). As illustrated in Exhibit 2, the drawdown of existing support measures has been fairly limited so far. Taking into account the supplementary budget, we now expect a general government fiscal deficit of around 5.5% of GDP in 2021, which is one percentage points higher than our forecast at the beginning of February.² This will increase Germany's debt-to-GDP ratio, which we expect will peak at around 70% this year before falling in 2022, a year later than our previous forecast.

Exhibit 2

Drawdown of support measures has been modest for most programmes

€ billions, as of 25 March 2021



(1) Does not include €100 billion for the potential refinancing of approved KfW loans.

(2) With the first supplementary budget 2020 the ceiling for guarantees was increased by €357 billion (11% of GDP) to €822 billion (25% of GDP) in March 2020.

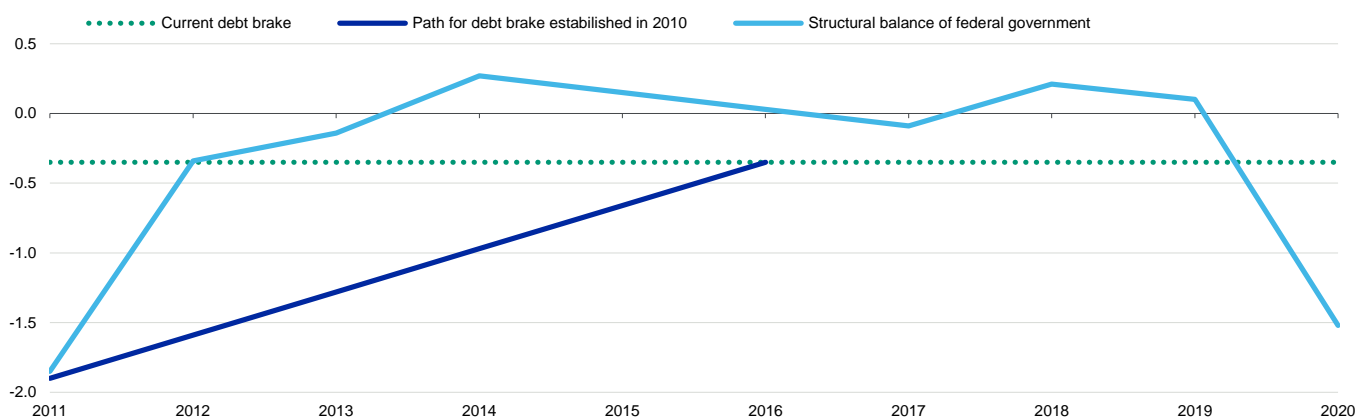
Sources: Ministry of Finance and Moody's Investors Service

The government expects net borrowing will fall to 2.2% of GDP in 2022 (Exhibit 3) and will remain in the range of 0.2%-0.3% of GDP over 2023-25, driven largely by the economic recovery, the phasing out of pandemic-related support measures and the use of fiscal reserves. The government intends to suspend the debt brake for a third consecutive year in 2022. The authorities plan to comply with the debt brake from 2023 by the use of existing reserves of €48 billion (or 1.4% of GDP) and the help of not yet defined spending cuts. In line with previous agreements, the Bundestag (Germany's lower house of parliament) will need to propose a repayment schedule for the borrowing in excess of the debt brake in 2022, as has been the case for 2020-21. The government will repay excess borrowing 2020 and 2021 over 2023-42 and 2026-42, respectively.

Exhibit 3

The government triggered the debt brake's exception clause in 2020 and will do so again in 2021-22

% GDP



Source: Ministry of Finance and Moody's Investors Service

Risks to our assessment of Germany's fiscal strength and the country's credit profile are limited, however. Germany's low borrowing costs offset the effect of the temporary fiscal deterioration on the country's fiscal strength.³ Safe haven flows and the ECB's expansionary monetary policy, as illustrated by the introduction of the €1,850 billion Pandemic Emergency Purchase Programme, have contributed to an improvement of already strong funding conditions. German government bonds' yields are at very low levels and the yield curve is currently in negative territory out to 17 years maturity (as of 29 March). As a result, we expect further improvements to debt affordability in the coming years, mitigating the pandemic's shock to fiscal metrics.

Endnotes

- ¹ The debt brake is a limit on borrowing that stipulates that the federal government's structural budget deficit should not exceed a maximum of 0.35% of GDP.
- ² [Credit Opinion: Government of Germany – Aaa stable: Update following rating affirmation, outlook unchanged](#), 2 February 2021.
- ³ Because we classify Germany as a reserve-currency country, our assessment of its fiscal strength is focused mainly on debt affordability. We consider [Australia](#) (Aaa stable), [Canada](#) (Aaa stable), [Japan](#) (A1 stable), [Switzerland](#) (Aaa stable), the [UK](#) (Aa3 stable) and the [US](#) (Aaa stable) as reserve currency countries. While the euro is considered a reserve currency, only the two largest member states, Germany and [France](#) (Aa2 stable), are considered to benefit from reserve-currency status. See for more details [Sovereign Ratings Methodology](#), 25 November 2019.

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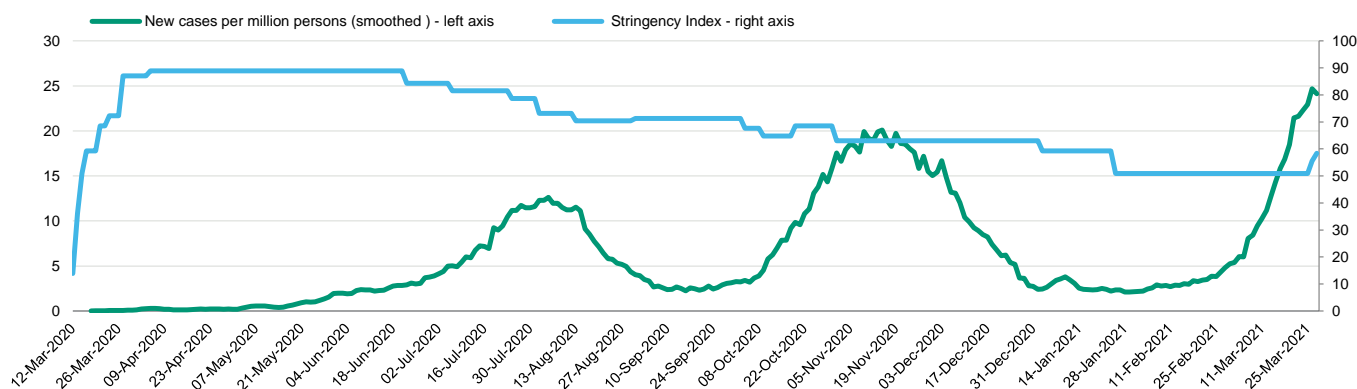
Kenya's renewed lockdown threatens to stall economic recovery and delay fiscal consolidation, a credit negative

Originally [published](#) on 30 March 2021

On 26 March, the Government of [Kenya](#) (B2 negative) announced new lockdown measures for the capital city of Nairobi and four surrounding counties to contain a rise in coronavirus infections (see Exhibit 1). The measures include a ban on travel into and out of these areas, suspension of public gatherings and school closures. While more targeted and selective than measures imposed in March 2020, the latest containment measures increase downside risks to Kenya's economic growth, and any loss of economic activity will worsen already weak revenue collection, which will delay the pace of fiscal consolidation.

Exhibit 1

A rise in new coronavirus cases in Kenya has prompted the government to impose new restrictions on five counties, including the capital of Nairobi



Sources: Oxford University (Our World in Data) and Moody's Investors Service

The latest set of containment measures are the strictest since the imposition of measures to contain the spread of the coronavirus in March 2020. The biggest risk to growth comes from the duration of the recently announced measures; when announcing the measures, President Uhuru Kenyatta did not specify an end date.

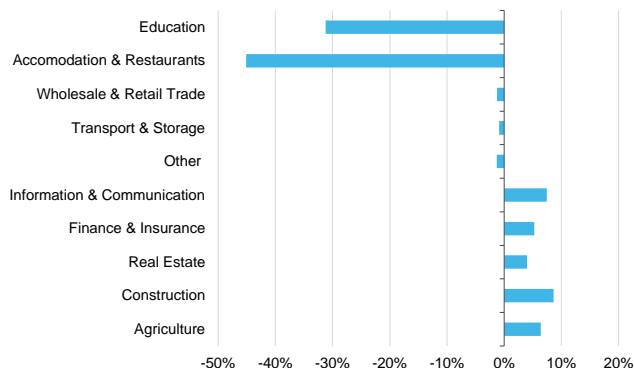
While many sectors have adapted to remote work and social distancing measures, these new measures threaten to slow the economic recovery depending on the duration of the lockdown measures. We expect services such as education, transport, accommodation and food service activities, and tourism to be among the most severely affected by the new restrictions.

Even though the measures will slow growth, at least through part of the second quarter of 2021, there are several reasons why growth will not slow as sharply as it did last year. The latest measures are more selective and targeted, focusing on five counties including Nairobi. And although Kenya last year imposed among the severest measures globally, the latest measures are not nearly as strict. For instance, Nairobi's Jomo Kenyatta International Airport will remain open.

We expect growth to rebound to 5% in 2021, following growth of around 1% in 2020. While tourism-related activity will remain weak until vaccinations increase and pandemic-related travel restrictions ease, we expect other services sectors such as education, wholesale and retail trade and transport to support growth this year. As Exhibit 2 shows, the education sector contracted more than 30% in 2020 because of school closures. The government's decision to close schools again threatens this sector's recovery, which poses one of the key downside risks to growth in 2021. Kenya's diverse economic structure will provide some resilience, with sectors such as agriculture unlikely to be affected by stricter containment measures (see Exhibit 3).

Exhibit 2

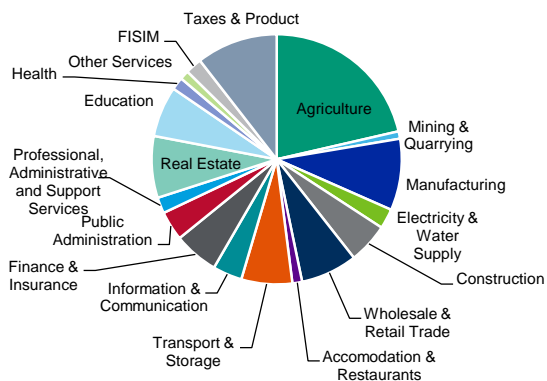
Services such as education, accommodation and restaurants were among the hardest-hit in 2020
% change, year over year



* Percent changes based on real GDP statistics through the first three quarters of 2020
Sources: Haver Analytics, Kenya National Bureau of Statistics and Moody's Investors Service

Exhibit 3

Kenya's diverse economy supported economic activity in 2020, with sectors such as agriculture and construction contributing positively to output growth
% of gross value added



Sources: Haver Analytics, Kenya National Bureau of Statistics and Moody's Investors Service

By potentially delaying the economic recovery, the lockdown amplifies downside risks to Kenya's fiscal outlook, as slower growth weighs on tax collection. We already expect revenue to decline to slightly less than 16% of GDP in fiscal 2021 (ending 30 June 2021), from around 17% of GDP in fiscal 2020. An extended lockdown period, which weighs more significantly on growth, also risks prompting the government to increase fiscal stimulus for the economy, resulting in a larger fiscal deficit and further debt accumulation over the next year.

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Post-pandemic labour market dynamics for women will amplify credit strengths and challenges

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The coronavirus pandemic has stalled gains in female labour force participation across advanced economies, including the [EU](#) (Aaa stable), with implications for both economic and fiscal strength. Future trends could pull in different directions, as some women drop out of the labour force altogether, but a move toward more flexible working arrangements encourages more women to enter or reenter some sectors of the economy. Policy decisions will also shape the pace of recovery in female participation.

- » **Gap between male and female labour participation has narrowed but differences are sizeable.** Female participation in the EU has increased steadily over the past few decades and women account for most employment growth over the last 20 years. Nevertheless, there are sizeable differences between economies, with female labour force participation ranging from 85% in [Sweden](#) (Aaa stable) to 65% or less in [Italy](#) (Baa3 stable), [Greece](#) (Ba3 stable) and [Romania](#) (Baa3 negative).
- » **Policy design and implementation is a major driver of female participation** in the labour market, although educational attainment of women is also key. Parental leave for both parents and the availability of childcare and early childhood education play a leading role in reducing the number of women who drop out of the labour force during the early years of motherhood. The design of tax and benefit policy can also reduce disincentives for women to remain outside of the labour force.
- » **Pandemic has stalled the trend of rising female labour participation**, although the impact in Europe is much smaller than it has been in the US. Within the EU, the situation in Italy is especially challenging. The larger number of women working in high-contact sectors is important, but childcare needs are also a major reason for the pandemic's disproportionate impact on women. Some of these women may not return to employment for a number of years, in part because the sectors where they work may take longer to recover.
- » **Policy will shape participation, as long-term trends pull in opposite directions.** Italy faces particular credit risks from its low female labour participation. By contrast, in countries including [Slovenia](#) (A3 stable), [Lithuania](#) (A2 stable) and the Nordics, strong female participation supports credit quality. More broadly, the pandemic's impact could exacerbate inequalities, as family-friendly policies help more higher-income women to stay in the labour force, broadening the gap with less-educated women on lower incomes.

[Click here](#) for the full report.

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