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Larrain Vial S.A. Corredora de Bolsa

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Larrain Vial S.A. Corredora de Bolsa

Credit Highlights

Issuer Credit Rating
BBB/Negative/A-2

Key Strengths	Key Risks
The largest independent brokerage house in Chile with a leading position in the Santiago Exchange equity intermediation; and	Significant competition in the Chilean brokerage industry; and
Diversified revenue sources that mitigate the cyclical nature of market operations.	Profitability vulnerable to securities market fluctuations and transaction volumes, intrinsic to the industry.

The largest independent broker in Chile and diversified operations as part of Larrain Vial financial group. Larrain Vial Corredora de Bolsa (LVBC)has a solid business position as one of the largest brokerage houses and the largest independent broker in Chile. The company also has a wide business diversification (including corporate finance services, intermediation of shares, fixed income, currencies and derivatives, and distribution of third-party products).

Sound capitalization metrics and profitability with prudent risk management. We expect profitability to remain strong, although lower than record high levels in 2020. The company's dividend payout will remain higher than historical levels, but we expect the firm to maintain its risk-adjusted capital (RAC) ratio at 10%-12% during the next 12-18 months. LVCB has prudent risk management with adequate controls for existing and emerging risk associated with increasing digitalization and technology and remote operations.

Issuer credit ratings don't incorporate enhancement for extraordinary external support. The ratings of LVCB are at the same of its stand-alone credit profile (SACP) of 'bbb' because we don't incorporate notching for external support into the issuer credit ratings on LVCB.

Outlook

The negative outlook on LVCB for the next 18-24 months reflects that of the banking industry, which in turn reflects downside risks until Chile's economy fully recovers and prospects for the medium term become clearer amid the amendment of the constitution, presidential elections, and/or other global developments. Additionally, we could lower the rating on LVCB if the broker or its holding company's currently sound profitability significantly worsen or if capitalization metrics further decline following higher dividend payments or debt.

Upside scenario

We could revise the outlook on LVCB to stable if pressures in the average risk for securities firms recede if our relative view of business conditions for Chilean brokers and domestic markets improve--despite higher risk for banks--or if current pressures on the Chilean financial system soften.

Anchor: 'bb+' For Securities Firms Operating In Chile

The 'bb+' anchor for securities firms indicates our view of Chile's economic and industry risks. The anchor for securities firms in Chile is three notches below our anchor for domestic banks, compared with our standard two-notch adjustment. This is to reflect our view of the higher risks for securities firms in Chile, given more volatile and less liquid domestic capital markets in the country compared with its peer countries. The standard two-notch adjustment generally reflects our view that the funding risk for securities firms is higher than for banks because these firms typically lack access to the central bank's credit lines, as is the case in Chile, as well as strong competition from banks and among securities firms. Nonetheless, Chilean securities firms have benefited from favorable competitive conditions thanks to the country's privatized pension system. This system has helped diminish cyclicality, even though the sector's revenues are more transactional than those of banks. However, during 2020 and 2021, three pension funds withdrawals have been approved, which have given individuals extra liquidity to cope with the pandemic, but have also increased volatility in the domestic markets, especially following the third withdrawal phase in March 2021. We will monitor the impact on the financial industry from pension fund withdrawals and further developments in the domestic pension fund system.

Business Position: A Leading Position In The Chilean Market

We view LVCB's business position as a credit strength based on its sound competitive position in the Chilean financial system and revenue stability stemming from diversification. LVCB is one of the leading independent brokerage firms in Chile, offering a broad range of financial services and long-term relationships with customers, all of which provide a stable revenue base. As of August 2021, LVCB remained the among the leaders in equity intermediation in Chile, with an 17% share (considering accumulated figures of the Santiago Stock Exchange), while it was the third largest in corporate bonds, with a 11% share.

The firm's operations in capital markets, investment banking, trading, and wealth management help mitigate market cycles. Furthermore, LVCB operates in Peru, Colombia, and the U.S, which provides greater diversification, but revenue from Chile continues to make up the bulk of the company's total revenue. As of June 2021, operations from abroad represented about 5% of the brokerage house's total revenue.

In our opinion, LVCB has a qualified management team with extensive experience in financial markets. We expect LVCB to remain one of the largest brokers in Chile, with strong presence in the equity intermediation and to maintain diversified operations. We expect LVCB to continue strengthening its digital channels to continue servicing clients and new business trends.

Capital, Leverage, And Earnings: Capitalization Metrics To Remain Strong Despite The Likely Slippage, With RAC Ratio Of 10%-12%

We assess LVCB's capital, leverage, and earnings as a credit strength based on our expected RAC ratio before diversification of 10%-12% for the next 12-18 months and the firm's strong earnings capacity. As of December 2020, the firm's RAC ratio was 12.1%, and we expect it to remain within 10%-12% range incorporating high dividends payouts of 70% as financial results should remain strong thanks to diversified operations. The company continues to enjoy healthy core earnings, with a core earning to risk weight assets ratio of 2.5% on average in the past three years. Additionally, the company continues to benefit from a stable revenue base of which about 50% of operating revenue stems from recurring fees and commissions, and gains from its subsidiaries. LVCB benefits from stable fee generation related to the distribution of third-party products, such as mutual funds from Larrain Vial Asset Management.

In 2020, LVCB reported historically high results of CLP20.5 billion (37% higher than a year before). The greater uncertainty in the market increased demand for products to hedge against dollar movements, which resulted in strong gains from derivatives (forwards) and foreign currency (FX) intermediation. This more than compensated for lower brokerage intermediation and other fees related to investment banking operations. We expect LVCB's profitability to remain sound in 2021 due to business diversification. This is because we expect a recovery in brokerage intermediation and corporate finance fees, gains related to FX intermediation that will compensate for a weaker performance of the firm's proprietary portfolio, which took a hit from rising interest rates in the market.

Risk Position: Prudent Risk Management

We believe LVCB has a prudent risk profile, consistent with historical levels and those of peers. In our view, LVCB manages principal risks appropriately because it has adequate risk management practices and a comprehensive risk approach. LVCB's proprietary portfolio is invested in low-risk and mainly fixed-income instruments. Furthermore, LVCB applies formal market risk controls based on value-at-risk measures and stress-testing analysis, incorporating major transaction risks. We also consider LVCB's operations as diversified in terms of clients, and sectors.

In 2020, LVCB has been focusing on enhancing its risk management, mainly in information security and cybersecurity. Additionally, since last year, following the need to operate remotely due to the pandemic, LVCB has also focused on improving connectivity and remote operations, which allowed the broker's employees to operate from home without major disruptions.

Funding And Liquidity: Stable Funding Sources And Ability To Meet Liquidity Needs

Our assessment of LVCB's funding reflects its stable funding sources relative to its needs, which are adequately matched in term of duration. As of June 2021, the company's gross stable funding ratio (GSFR) was 95%, given punctual higher business volumes, and it averaged 113% for the past three fiscal years. LVCB mainly funds its operations through its common equity, and to a lesser extent, with repos with clients. The firm also has access to intra-day liquidity through credit facilities from several Chilean banks. Our liquidity assessment reflects our view of LVCB's ability to meet its liquidity demands. Our liquidity coverage metric (LCM) for the firm has been consistently above 1x over the last few years, reaching 2.7x as of December 2020 and 3.3x as of June 2021. LVCB's broad liquid assets mainly consist of its investment portfolio, which is mainly allocated in government bonds and corporate and bank securities. Its liquidity needs are mainly short-term repurchase agreements. We expect the firm to keep its LCM above 1x and to cover its liquidity needs under potential stressful market conditions for the next 12 months.

Support: No Additional Notches For External Support

We don't incorporate notching for external support into the issuer credit ratings on LVCB. Larrain Vial S.P.A.--a private holding company specializing in financial services and investment, and finance consultancy--directly and indirectly owns 100% of LVCB. Larrain Vial's group credit profile is at the same level as the issuer credit rating on LVCB, because the latter is the group's main subsidiary that accounts for about 70% of total consolidated assets. However, Larrain Vial has relatively lower capitalization levels than the broker, which could decline further in coming years due to the high dividend payout ratio and higher long-term debt.

Key Statistics

Table 1

Key Financial Data

	2021*	2020	2019	2018	2017
(CLP)					
Adjusted assets	833,715,555	562,801,791	538,160,092	334,049,306	351,023,108
Adjusted common equity	85,688,371	86,945,761	79,990,614	70,659,955	63,310,800
Total adjusted capital	85,688,371	86,945,761	79,990,614	70,659,955	63,310,800
Operating revenues	29,368,715	61,350,537	52,758,706	45,442,555	46,270,426
Noninterest expenses	18,125,751	37,391,665	34,947,160	33,384,605	28,757,543
Net income	9,919,686	20,505,084	14,930,447	11,404,465	15,081,551
Core earnings	9,108,196	21,011,024	14,914,781	11,254,541	14,984,632

*As of the end of June.

Table 2

Business Position

	2021*	2020	2019	2018	2017
(%)					
Net interest income/operating revenues	(2.1)	(3.0)	(6.9)	(8.8)	(7.8)
Fee income/operating revenues	54.3	37.8	47.7	54.8	50.1
Market-sensitive income/operating revenues	34.7	51.4	43.8	35.0	46.8
Pretax profit/operating revenues	41.7	38.1	33.8	26.9	38.1
Core earnings/average adjusted common equity	21.1	25.2	19.8	16.8	24.5

*As of the end of June.

Table 3

Capital

	2021*	2020	2019	2018	2017
(%)					
Leverage Ratio (IFRS)	10.41	16.52	15.82	21.73	19.21

Table 3

Capital (cont.)	2021*	2020	2019	2018	2017
Adjusted total equity/adjusted assets	10.28	15.45	14.86	21.15	18.04
Adjusted common equity/total adjusted capital	100.00	100.00	100.00	100.00	100.00
Total equity double leverage	N.M.	12.26	12.40	11.15	N.M.

*As of the end of June.

Table 3a

Earnings	2021*	2020	2019	2018	2017
(%)					
Personnel expenses/operating revenues	27.95	29.32	29.11	29.13	10.20
Cost to income ratio	61.72	60.95	66.24	73.47	62.15
Core earnings/operating revenues	31.01	34.25	28.27	24.77	32.38
Internal capital generation/prior year's equity	22.82	25.63	21.13	18.01	25.63
Net interest income/average earning assets	-0.74	-1.27	-2.49	-2.81	-2.98
Core earnings/S&P Global Ratings' RWA before diversification	N/A	3.24	2.26	1.99	2.87
3-year average core earnings/S&P Global Ratings' RWA before diversification	N/A	2.50	2.37	N/A	N/A

*As of the end of June.

Table 4

Risk Position	2021*	2020	2019	2018	2017
(%)					
Annualized adjusted assets growth rate	96.27	4.58	61.10	-4.84	21.52
Adjusted common equity/managed assets	10.24	15.35	14.75	20.86	17.77
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	34.69	38.18	39.46	33.69

*As of the end of June.

Table 5

Funding And Liquidity	2021*	2020	2019	2018	2017
(%)					
Gross stable funding ratio	93.39	116.76	130.98	93.91	135.85
Short-term wholesale funding/adjusted assets	14.28	18.50	17.79	25.18	23.15
Liquidity coverage metric (x)	3.33	2.73	2.81	1.53	2.16

*As of the end of June.

Ratings Score Snapshot

Issuer credit rating	BBB/Negative/A-2
SACP	bbb

Anchor	bb+
Business position	Strong (+1
Capital and earnings	Strong (+1
Risk position	Adequate (0)
Funding and liquidity	Adequate and Adequate-High (0)
Support	
GRE support	0
Group support	0
Government support	0
Additional factors	0

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- 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
- Criteria | Financial Institutions | General: Issue Credit Rating Methodology For Nonbank Financial Institutions And Nonbank Financial Services Companies, Dec. 9, 2014
- Criteria | Financial Institutions | General: Nonbank Financial Institutions Rating Methodology, Dec. 9, 2014
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011

Related Research

- Banking Industry Country Risk Assessment: Chile, Aug. 27, 2021

Ratings Detail (As Of September 24, 2021)*	
Larrain Vial S.A. Corredora de Bolsa	
Issuer Credit Rating	BBB/Negative/A-2
Issuer Credit Ratings History	
03-Apr-2020	BBB/Negative/A-2
22-Aug-2018	BBB/Stable/A-2
08-Aug-2017	BBB/Negative/A-2
14-Jul-2017	BBB/Watch Neg/A-2
27-Jan-2017	BBB/Negative/A-2
Sovereign Rating	
Chile	
Foreign Currency	A/Stable/A-1

Ratings Detail (As Of September 24, 2021)*(cont.)	
Local Currency	A+/Stable/A-1

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.