

Research Update:

U.K. Lender Together Financial Services Outlook Revised To Negative On Economic Impact Of COVID-19; Ratings Affirmed

April 24, 2020

Overview

- Despite U.K. government and central bank measures to contain the COVID-19 pandemic, the U.K. economy and financial system face an unprecedented challenge and there are substantial downside risks.
- We are therefore revising our outlook on specialist U.K. lender Together Financial Services, and its nonoperating holding company Bracken Midco 1 PLC, to negative from positive.
- We are affirming our issuer credit and issue ratings because Together's low loan-to-value balance sheet, robust capital base, and stable liquidity position are meaningful mitigants to the adverse operating environment.
- The negative outlook reflects our view of the potential economic and market impact of the COVID-19 pandemic on Together's earnings and funding.

PRIMARY CREDIT ANALYST

William Edwards
London
(44) 20-7176-3359
william.edwards
@spglobal.com

SECONDARY CONTACT

Nigel Greenwood
London
(44) 20-7176-1066
nigel.greenwood
@spglobal.com

Rating Action

On April 24, 2020, S&P Global Ratings revised its outlook on Together Financial Services Ltd. and its nonoperating holding company, Bracken Midco 1 PLC (Bracken), to negative from positive. At the same time, we affirmed the 'BB-' long-term issuer credit rating on Together and the 'B+' ratings on Bracken. We also affirmed the issue ratings on senior secured notes issued by Jerrold Finco, a subsidiary of Together, and the PIK Toggle notes issued by Bracken.

Rationale

The outlook revision reflects our view that economic and market stress triggered by the COVID-19 pandemic may weaken Together's profitability and asset quality in the coming quarters, while meaningfully testing its funding franchise.

In addition to the human cost, large parts of economic activity in the U.K. and much of the rest of

Europe have ground to a halt. With isolation strategies still very much in force, our economists expect sharp economic contraction in the second quarter of 2020, followed by a rebound starting in the third quarter. However, they are now more cautious on the strength of recovery through end-2020 and into 2021, envisaging a 2.4% decline in global GDP in 2020. In the U.K., they assume a 6.5% GDP decline in 2020 before rebounding by 6% in 2021. Even under this base case, the effects of COVID-19 will be evident for long after the crisis subsides.

The affirmation of the ratings on Together balances our favorable view of its robust capital base, stable liquidity position, and prudent lending policy, against its niche business profile and our less favorable view of its funding franchise. Although we expect the COVID-19 pandemic to challenge the group's financial performance through 2020, primarily through material growth in impairments, we expect Together to weather the economic downturn relatively well, led by its low loan-to-value loan book (a reported weighted average of 55% across the whole loan book at Dec. 31 2019). That said, given its profile as a niche, specialist lender we still consider Together to be relatively more exposed to further downside deterioration in the U.K. macroeconomic environment. In addition, we consider that a tight, or largely closed, wholesale funding market for issuers such as Together creates further downside pressure.

Outlook

The negative outlook reflects our view of the potential economic and market impact of the COVID-19 pandemic on Together's earnings and funding. Although we view positively Together's track record of resilience and profitability, its improving management framework, and growing funding franchise, an extended economic downturn could materially increase impairment losses, damage its funding franchise, and weaken revenues over our 12-month outlook time horizon.

Downside scenario

We could consider taking a negative rating action on Together if we believe that pressures on the U.K. economy and financial system were likely to sustainably weaken its earnings prospects and capital generation.

Upside scenario

We could revise the outlook back to stable if:

- Together demonstrates relatively resilient earnings and asset quality; and
- We see a material opening and loosening of capital markets for the group; or
- We observe an easing of economic pressures and a manageable deterioration of asset quality in the U.K.

Ratings Score Snapshot

Issuer Credit Rating:	BB-/Negative/--
Group credit profile:	bb-
Anchor:	bb+

Business position:	Moderate (-1)
Capital and earnings:	Adequate (0)
Risk position:	Adequate (0)
Funding and liquidity:	Moderate/Adequate (-1)
Comparable ratings adjustment:	None (0)
Support:	0
GRE support:	0
Group support:	0
Sovereign support:	0
Additional factors:	0

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- 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
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- General Criteria: Rating Implications Of Exchange Offers And Similar Restructurings, Update, May 12, 2009

Related Research

- Outlooks Revised On Six U.K. Banks On Deepening COVID-19 Downside Risks, April 23, 2020
- Together Financial Services Ltd., Feb. 18, 2020
- Rising Credit Pressures Amid Deeper Recession, Uncertain Recovery Path, April 22, 2020

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Together Financial Services Ltd.		
Issuer Credit Rating	BB-/Negative/--	BB-/Positive/--
Bracken MidCo1 PLC		
Issuer Credit Rating	B+/Negative/--	B+/Positive/--
Senior Secured	B+	
Jerrold FinCo PLC		
Senior Secured	BB-	

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