Fitch Affirms Together at 'BB'/Stable; Upgrades HoldCo Notes to 'B+'

Fitch Ratings - London - 11 December 2019:

Fitch Ratings has affirmed Together Financial Services Limited's Long-Term Issuer Default Ratings at 'BB' and the senior secured notes issued by subsidiary Jerrold FinCo Plc (FinCo) and guaranteed by Together at 'BB'.

Fitch has also affirmed the Long-Term IDR of Together's indirect holding company Bracken Midco1 PLC (Midco1) at 'BB-' and simultaneously withdrawn the rating. Fitch has upgraded the senior PIK toggle notes issued by Midco1 to 'B+' from 'B'.

The upgrade of Midco1's PIK toggle notes reflects a re-assessment of the rating level they achieve when notched from Together's IDR rather than Midco1's IDR.

Midco1's Long-Term IDR is no longer considered by Fitch to be relevant to the agency's coverage.

Key Rating Drivers

Together's IDR is underpinned by its long-established franchise in providing secured credit to under-served borrowers, a tested business model encompassing robust underwriting, good levels of profitability and an increasingly diversified funding profile. This mitigates the inherent risk involved in lending to a niche sector of non-standard UK borrowers and the associated funding and leverage needs, which have been increasing but are within the tolerance for Together's rating.

Together has been in business since 1974 and has established a robust franchise and strong business relationships, for example, with brokers and mortgage packagers, which have proved important for Together's ability to increase origination of specialist loans. However, in the context of the wider UK mainstream mortgage market, Fitch views Together's franchise as moderate.

Loans are secured on UK property with loan to value (LTV) ratios maintained below 60% and underwriting performed on an individualised basis. The non-performing loan ratio is higher than mainstream lenders at 8.4% FY19 (end June 2019) , on an IFRS9 basis (FY18: 7.6%, on an IAS39 basis), but actual principal losses have been low as a result of the robust security value backing each loan.

Profitability metrics are strong, as expected for higher risk lending, with pre-tax income to average assets at 3.8% FY19 (FY18: 4.6%). However, net interest margins contracted to 6.8% in 2019 from 7.7% in 2018, largely due to higher rate loans originated during the credit crisis being replaced with lower rate offerings as well as some product mix effect and increased competition pressurising nominal rates. We expect that profitability metrics have a degree of headroom to absorb moderate margin contraction.

Together's leverage metrics have increased with debt to tangible equity equating to 4.6x 1Q20 from 3.5x FY18. This is largely attributable to the increased funding requirements of Together's increased loan origination. When calculating Together's leverage, Fitch adds Midco1's debt to that on Together's own balance sheet, regarding it as effectively a contingent obligation of Together. Midco1 has no separate financial resources of its own with which to service it, and failure to do so would have considerable negative implications for Together's own creditworthiness. Profits are largely re-invested in the business and this somewhat mitigates the dependence on debt funding.

The funding profile has improved in recent years with Together successfully managing to attract new lenders, increase headroom within facilities and increase the maturity profile, providing the group with enhanced visibility of the means of supporting the planned continued growth of its loan book. Funding sources now comprise listed senior secured notes issued by the financing arm Jerrold FinCo Plc, private and public securitisations, PIK notes issued by Bracken Midco 1 PLC and a revolving credit facility of GBP71.9 million.

In recent years, Together's loan book has generated a low level of impairments, but alongside the company's underwriting standards and risk controls, this should be viewed in the context of a relatively benign operating environment, characterised by low interest rates and high employment levels, which have eased pressure on borrowers. While the UK political situation and Brexit status is still unclear, the Outlook on Together's Long-Term IDR is Stable because we expect capitalisation and liquidity to withstand a moderate weakening of the economic environment associated with Brexit.

MIDCO1 -SENIOR PIK TOGGLE NOTES

Fitch has reassessed the anchor rating from which Midco1's PIK toggle notes are notched. As Midco1's debt is taken into account when assessing Together's leverage, and Midco1 is totally reliant on Together to service its obligations, we have assessed the appropriate anchor to be Together's IDR. The notching of Together's IDR and the rating of the senior PIK toggle notes reflects Fitch's view of the likely recoveries in the event of Midco1 defaulting. While sensitive to a number of assumptions, this scenario would only be likely to occur when Together was also in a much weakened financial condition, as otherwise its upstreaming of dividends for Midco1 debt service would be maintained.

RATING SENSITIVITIES

TOGETHER - IDRS AND SENIOR DEBT

Together's IDR and debt ratings are sensitive to a combination of ongoing rising leverage, increased impairments that negatively impacts profitability and a weaker operating environment that could trigger a downgrade. In particular, ratings would become increasingly sensitive to leverage if it materially increased above 5x. A material slowdown in Together's rate of internal capital generation, for example due to a deteriorating operating environment adversely affecting asset quality and leading to higher non-performing loan metrics, could lead to a downgrade. This would be particularly relevant if accompanied by continued growth in the loan book, and therefore rising leverage. In a severe market downturn, ratings would also be sensitive to restricted access to funding.

An upgrade would be likely to require upward reappraisal of Together's franchise and business model, in addition to continued sound financial performance.

MIDCO1 - SENIOR PIK TOGGLE NOTES

The rating of the senior PIK toggle notes is sensitive primarily to changes in Together's IDR, from which it is notched, as well as to Fitch's assumptions regarding recoveries in a default scenario. Lower asset encumbrance by senior secured creditors could lead to higher recovery assumptions and therefore narrower notching from Together's IDR.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity.

RATING ACTIONS

ENTITY/DEBT	RATING	RECOVERY	PRIOR
Jerrold Finco Plc			
senior secured	LT BB Affirmed		BB
Together Financial Services Limited	LT IDR BB Affirmed		BB
	ST IDR B Affirmed		B
Bracken Midco1 Plc	LT IDR BB- Affirmed		BB-
	LT IDR WD Withdrawn		BB-
subordinated	LT B+ Upgrade	RR6	B

Additional information is available on www.fitchratings.com

Applicable Criteria

Non-Bank Financial Institutions Rating Criteria (pub. 12 Oct 2018)
Short-Term Ratings Criteria (pub. 02 May 2019)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form
Solicitation Status
Endorsement Policy

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