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Summary: Credomatic International Corp.

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Rationale

The ratings on Credomatic International Corp. are based on the company's important regional presence, diversified loan portfolio, good financial profile, and increasing market recognition of the BAC Credomatic brand in Central America. The ratings are balanced by the higher risks associated with the credit card business and consumer loans. Furthermore, although the company's operations spread throughout the Central American region, the countries covered by Credomatic are small economies, with economic nondiversification and low per-capita income.

The ratings on Credomatic are not constrained by the sovereign rating on any particular country in which it operates, all of which are noninvestment-grade. Rather, the ratings assigned are the result of the company's own credit standing, taking into account the risks of the countries in which it operates, but also the business mix and risk diversification achieved. Although individual country risk exposure is not a significant concern, strong regional cool-down or turmoil could probably affect asset quality and profitability. The company has built good market recognition and franchise value in Central America under a strong retail banking approach. Credomatic remains the leading credit card issuer and merchant voucher acquirer in the region, which remains its core competitive advantage. Credomatic's operations are diversified in more than six countries, yet there are particular, but decreasing, concentrations in Costa Rica and El Salvador.

Credomatic's profitability has been consistently high, with ROAs of more than 4% in recent years, mainly derived from the higher margins, fees, and commissions obtained in the credit card and consumer loan businesses. Over the years, diversifying away from its traditional line of business, which has resulted in constant growth, several sources of income, and a broad range of services to offer to its clients has strengthened earnings quality. Profitability has also benefited from decreasing funding costs, as the company, through its bank subsidiaries, has effectively increased low-cost deposits and its services offering to clients. The loan portfolio has performed adequately as nonperforming assets ratios are below 2.5% as of September 2004. Equity has grown by earnings retention, despite the relatively high dividend payout ratio. Current capital, along with

forecasted earnings, will allow Credomatic to continue growing organically.

Although Credomatic is a regional company, it operates in countries where economies are small, with little economic diversification. Credomatic is challenged to maintain a prudent business approach and to continue diversifying by line of business, by industry, and by country. In Standard & Poor's Ratings Services' view, Credomatic should be able to manage modest growth prospects for the region, and maintain conservative policies to reduce the risks inherent to its core retail orientation. Nevertheless, a severe regional cool-down or turmoil could affect asset quality and profitability.

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Outlook

The stable outlook reflects our opinion that the bank's strategies and adequate operations should maintain profitability and asset quality at good levels in a stable economic environment.

Credomatic is expected to continue operating under prudent guidelines while enhancing its banking business in each of the markets in which it operates. Barring any major regional disorder that could result in asset quality and profitability deterioration, the ratings are expected to remain at current levels.

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