Fitch Affirms Banque Ouest Africaine de Developpement at ‘BBB’; Outlook Stable

Fitch Ratings, London, 19 May 2016: Fitch Ratings has affirmed Banque Ouest Africaine de Developpement's (BOAD) Long-Term Issuer Default Rating (IDR) at ‘BBB’ with a Stable Outlook and Short-term IDR at 'F2'. Fitch has also affirmed the rating of the senior unsecured notes at ‘BBB’.

BOAD’s ratings are driven by the strong support it would receive, if required, from its main shareholder, Banque Centrale des Etats d’Afrique de l’Ouest (BCEAO), which is the regional central bank of the West African Economic and Monetary Union (Union Economique et Monetaire Ouest-Africaine - UEMOA), and from the eight regional member states (RMS) of UEMOA, which own 47.1% of capital at end-2015 and slightly less than 6% each.

KEY RATING DRIVERS

The ratings and Stable Outlook reflect the following key rating drivers:

- BOAD’s shareholders capacity to support reflects the ratings of its main shareholder, BCEAO. Cote d’Ivoire (B+/Stable). The other RMS - Benin, Burkina Faso, Guinea Bissau, Mali, Niger, Senegal, and Togo - are not rated by Fitch.

- Based on Fitch’s estimates, the credit quality of BCEAO is significantly higher than that of the individual RMS. This assessment reflects the Country Ceiling for the UEMOA (BBB-), largely based on the monetary arrangements with France, and the privileged access of BCEAO to hard currency resources. The BCEAO and RMS propensity to support is strong, in Fitch’s view, reflecting BOAD’s important role in the financing of RMS, as well as its privileged access to BCEAO’s hard-currency refinancing window.

- The concentration of BOAD’s banking portfolio in the eight countries of the UEMOA means that BOAD’s operating environment presents significant risk. These countries are characterised by high poverty, weak business climates, low levels of human development and, for some, political instability. Since 2011, three UEMOA countries have been through civil wars or coup d’etat.

- BOAD’s liquidity compares favourably with peers, with a liquid assets/short-term debt ratio of 118% at end-2015. Due to BOAD’s USD750m bond issuance in April 2016, Fitch expects funding sources to be increasingly diversified and liquid assets to cover short-term commitments by more than 2x in the coming years. BOAD benefits from BCEAO’s refinancing mechanism, a quasi-unique feature among multi-lateral development banks, but which it has never used.

- BOAD maintained high growth in lending activity in 2015. Fitch expects lending to continue to grow at a comparable rate. Fitch expects exposure to non-sovereign borrowers to increase, as diminished concessional resources from donors and development institutions will reduce BOAD's capacity to issue concessional loans to member states. The RMS nevertheless implemented a loan subsidising mechanism enabling BOAD to maintain concessional lending. However, in Fitch’s view, the share of concessional lending in the total loans will further erode.
The average credit quality of BOAD’s loan book is very low speculative grade. The vast majority of loans are extended to or guaranteed by the eight UEMOA sovereigns, for which BOAD enjoys preferred-creditor status. In Fitch’s view, BOAD’s higher exposure to non-sovereign borrowers will translate into higher impaired loans in the future, which may reverse the current trend. Impaired loans accounted for 2.7% of gross loans at end-2015, vs 3.3% in 2014. They relate entirely to the non-sovereign exposure.

Although relatively strong by industry standards, capitalisation and leverage declined at end-2015, with an equity/adjusted assets ratio of 37% (2014: 39%) and debt/equity ratio of 161% (2014: 145%). In Fitch’s view, capitalisation and leverage metrics will decline substantially in 2016 as a result of the early 2016 bond issuance, but will remain robust. Given BOAD’s rapid growth in lending, capitalisation is expected to further deteriorate in the medium term, albeit at a modest rate, as disbursement under the ongoing capital increase will partly offset growth in lending and leverage.

RATING SENSITIVITIES
The Stable Outlook reflects Fitch’s expectation that the rating of key shareholders will remain stable.

BOAD’s ratings are driven by shareholder support. An upgrade could follow a significant improvement in the average credit quality of UEMOA countries, leading to an improvement of BCEAO’s capacity to support the bank.

While a reduction in the rating of individual RMS would not have a direct impact given their fairly low share in capital, a downward revision of the Country Ceiling of UEMOA would lead to a similar action on BOAD’s ratings.

A devaluation of the CFA franc against the euro or any change in monetary agreements implying a lower support of France to UEMOA would lead to a downgrade of BOAD’s ratings.

KEY ASSUMPTIONS
The ratings and Outlooks are sensitive to a number of assumptions. In particular, Fitch assumes that the average sovereign rating of the seven non-rated countries of the UEMOA is very low speculative grade. It also assumes that the French treasury will honour its commitment to provide liquidity to BCEAO and preserve the convertibility of the CFA franc into euro in the event of a depletion of its international assets.

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Additional information is available on www.fitchratings.com

- Sources of information – In addition to the Supranationals Rating Master Criteria, this action was additionally informed by information from Banque Ouest Africaine de Developpement