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Ratings advisory services



Afi

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Context: the significance of ratings against the backdrop of bank disintermediation

The current state of bank lending in Spain (less funding available, more expensive, more stringent borrower requirements) is set to continue in the medium- to long-term, forcing companies to look for alternative financing sources including bond issues targeted at institutional or retail investors, an option being pursued more and more by listed and unlisted companies alike.

Issuers are better off tapping the bond markets if they have a third-party rating: although a credit rating is not strictly necessary to successfully place bonds, it does widen the target investor base, thereby reducing the cost of the issue.

Against this backdrop, AFI advises listed and unlisted companies on estimating the rating that the rating agencies should objectively assign the company (shadow rating). Shadow ratings can be used by companies' decision-making bodies to visualise the cost of a potential issue for the purposes of approving it or otherwise. Shadow ratings are also used by issuers when negotiating funding terms with banks.

If a company decides to go ahead with an issue, AFI can also advise it on how to approach and argue its case before the rating agencies in order to obtain a public rating.

Shadow Rating

Help finance officers to negotiate borrowing terms with financial institutions

Help decision-making bodies decide on the advisability of potential bond issues

AFI's ratings estimation methodology

The rating agencies use fairly standard methodology to assign issuer ratings, underpinned mainly by numerical analysis of issuers' historic financial statements. These general methodologies are then tailored to sector-specific circumstances.

A company's credit rating generally depends on two main factors:

1. Its operating or business risk; and
2. Its financial risk, tied to its capital structure.

Afi has developed an in-house methodology for assigning ratings, consistent with that used by the rating agencies, in order to estimate the shadow rating that should be objectively assigned to an issuer.

The ratings analysis performed by Afi is based on historic financial information, ideally a review of the financial statements over the last five years, placing greater emphasis on the more recent financial performance.



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The model inputs encompass qualitative and quantitative aspects, with the following standing out:

Information underlying Afi's shadow rating model

General:	Financial statements	Ratio analysis
<ul style="list-style-type: none"> - Geographic market - Date of incorporation - Sector - Listed/unlisted 	<ul style="list-style-type: none"> - Balance sheets for the last 5 years - Income statements for the last 5 years 	<ul style="list-style-type: none"> - Operating metrics - Financial metrics

The outcome is a credit rating that will define whether the company would receive an Investment Grade rating (AAA BBB-) or a Speculative Grade rating (BB+ D).

What Afi offers

AFI offers companies two classes of ratings advisory services:

1. Estimation of a company's objective shadow rating

- Analysis of current ratings for sector peers
- Analysis of current ratings for similarly-sized companies
- Application of AFI's ratings estimation methodology

2. Support in dealing with the rating agencies

- Defending the shadow rating before the rating agencies
- Reviewing the documentation to be presented to the rating agency
- Advice on the formulation of future financing plans
- Attendance at meetings with the rating agencies

Contact

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