

New Zealand-based Oxford Finance Corp. Ltd. Assigned 'BBB-/A-3' Ratings; Outlook Stable

Counterparty Credit Rating

BBB-/Stable/A-3

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Overview

- Oxford Finance Corp. Ltd. (OFC) is a midsize finance company that mainly focuses on motor vehicle and property finance loans, and is based in the southwestern part of New Zealand's North Island.
- We have assigned our 'BBB-' long-term corporate credit rating to the company. The outlook is stable.
- The ratings on OFC reflect the implicit and explicit support that OFC receives as part of the Electra Group (Electra), a trust-owned electricity network business.

Rating Action

On Oct. 19, 2009, Standard & Poor's Ratings Services assigned its 'BBB-' long-term corporate credit rating to Oxford Finance Corp. Ltd., a midsize finance company in the southwest of New Zealand's North Island. OFC focuses mainly on motor vehicle and property finance loans. At the same time, we assigned our 'A-3' short-term corporate credit rating. The outlook is stable.

Rationale

The ratings on Oxford Finance Corporation Ltd. (OFC) reflect the credit quality of the wider Electra Trust group (Electra). Electra's credit profile reflects the Kapiti- and Horowhenua-based electricity distribution network's strong business position. This strength stems from its natural monopoly position, benign regulatory framework, good operating performance, and stable service area. These factors are offset by the group's expansion and acquisition appetite and the higher risk profile of its subsidiary, OFC.

OFC's rating reflects the credit quality of the wider group because of Electra's explicit and implicit support of OFC and its debenture holders. Electra has unconditionally and

irrevocably guaranteed OFC's debenture holders, excluding certain obligations such as its bank line, which has been secured by Electra's assets. This restrictive feature is not considered a limiting factor and would only be problematic for the rating if OFC's nondebenture liabilities became a material portion of total liabilities. Although the guarantee may be revoked with three months' notice, or if OFC is sold, obligations incurred until revocation of the guarantee will remain grandfathered.

The group's consolidated financials are not a reliable measure of financial risk because they mix utility and finance company numbers; capitalization for the two differs significantly. Standard & Poor's has measured financial risk by using Electra's financial results and adding an estimate of the contingent liability from OFC. Electra's leverage (debt-to-debt-plus-equity ratio) was 29.6% at June 30, 2009, and its funds-from-operations-(FFO)-interest-coverage ratio was 6.7x for fiscal 2009. Leverage and cash flow protection measures for Electra are, however, moderated after factoring in the contingent liability of OFC to the company.

Standard & Poor's considers that OFC's stand-alone credit profile is lower than the final ratings assigned, reflecting its relatively high-risk loan portfolio, small capital base, confidence-sensitive funding profile, and modest risk-management framework. These weaknesses are partially offset by OFC's strong interest margins and prudent approach to balance-sheet growth.

Standard & Poor's expects that OFC's credit losses will stay relatively high and that the property loan portfolio could sustain some large losses. OFC's nonperforming assets were 3.65% of customer loans at March 31, 2009, down from 4.69% the year before. To help manage ultimate credit losses, the company focuses on missed customer payments; this helped keep net charge-offs to 1.60% of customer loans for the year ended March 31, 2009.

Similar to other New Zealand finance companies, funding is considered a weakness for OFC due to concerns about its ability to maintain investor confidence. Such concerns are mitigated by the company's high debenture rollover rate of more than 80%, its diverse investor base, and the good maturity distribution of its debenture book. Additionally, OFC has well-matched asset and liabilities maturities, which reduce potential liquidity issues. At-call funding is limited to 10% of total funding.

OFC is expected to maintain capital in excess of its regulatory and Trust Deed requirements. However, the absolute size of OFC's capital base is moderate by domestic and international standards; shareholders' equity was only NZ\$6.0 million at March 31, 2009, affording only moderate protection against a major negative event.

Short-term credit factors

The 'A-3' short-term rating reflects OFC's 100% ownership by Electra and the group's adequate liquidity profile. Of itself, OFC has very modest on-balance-sheet liquidity. At March 31, 2009, it had on-balance-sheet cash of NZ\$1.7 million or only 3.5% of total borrowings. Despite OFC having a target of NZ\$2.0 million for its cash holdings, it has historically held significantly less than this (NZ\$0.4 million at March 2008 and NZ\$0.1 million at March 2007). Balance-sheet liquidity is supplemented by a NZ\$2 million bank facility and a NZ\$5 million group bank facility that Electra has available to support its subsidiaries.

OFC has a well-matched asset and liability book and can actively manage its new lending level to ensure there is adequate liquidity cover for debenture maturities. OFC's strong local investor support can be seen in its debenture-reinvestment rate of about 86% in fiscal 2009.

Outlook

The stable outlook on OFC reflects the outlook for the group, which is underpinned by the stability of the electricity-lines business in Kapiti and Horowhenua. The importance of OFC to Electra is primarily evidenced by the unconditional and irrevocable guarantee of OFC's debentures by Electra. A revocation of the guarantee—whether due to a sale of Electra's majority ownership of OFC or for other reasons—would trigger a ratings review. In this case, the ratings would likely be lowered in the absence of an alternative and equally strong support arrangement.

The credit profile of the Electra Group and, in turn, the rating on OFC could also be lowered if:

- Electra was unable to achieve forecasted price increases;
 - Electra engaged in significant M&A activity;
 - Network earnings materially decreased as a proportion of total group earnings; or
 - The regulatory framework changed such that Electra's ability to increase prices was constrained.
- OFC's contingent liability on Electra could increase and negatively affect the group rating if:
- OFC aggressively expanded into new business lines or new regions; or credit losses increased materially from current levels; or
 - OFC faced challenges in maintaining investor confidence.

The stand-alone credit profile is unlikely to improve in the short-to-medium term.

Related Research

Criteria | Corporates | General: Principles Of Corporate And Government Ratings, published June 26, 2007.

Ratings List

New Rating; CreditWatch/Outlook Action

Oxford Finance Corp. Ltd.

Counterparty Credit Rating BBB-/Stable/A-3

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