



RATING ACTION COMMENTARY

Fitch Revises Outlook on Multitude to Stable; Affirms at 'B+'

Mon 28 Feb, 2022 - 12:34 PM ET

Fitch Ratings - Frankfurt am Main - 28 Feb 2022: Fitch Ratings has revised the Outlook on Multitude SE's Long-Term Issuer Default Rating (IDR) to Stable from Negative and affirmed the IDR at 'B+'. The senior unsecured notes issued by Ferratum Capital Germany GmbH (Ferratum Capital Germany) have been affirmed at 'B+' /RR4 and the subordinated hybrid perpetual capital notes issued by Multitude at 'B-' /RR6. Fitch has also assigned Multitude a Shareholder Support Rating (SSR) of 'ns' (No Support).

Multitude is an online-focused consumer and SME finance company operating predominantly in the high-cost credit sector with an international footprint in 20 countries (mostly in Europe), including a strong presence in its domestic market Finland. The company is listed on the prime standard segment of the Frankfurt Stock Exchange and incorporates a Malta-domiciled bank (Ferratum Bank p.l.c., not rated) under its wider franchise.

KEY RATING DRIVERS

IDR

The revision of the Outlook reflects the more stable economic backdrop of Multitude's operating environment, as well as its improved financial performance in 2021. Fitch

believes that the remaining downside risks from potential increase in unemployment and further mobility restrictions to Multitude's key financial metrics (most notably asset quality, profitability and leverage) are captured in the current rating.

Fitch currently rates Multitude under its Non-Bank Financial Institutions Rating Criteria as the company's main business is focused on niche consumer lending (with its banking operations mainly geared towards deposit gathering and the facilitation of lending activities on the group in select markets).

Multitude's business model is mainly based on digital lending to individual consumers and SMEs in the high-cost credit segment. While temporary regulatory interventions during the pandemic, such as payment holidays, have mostly been withdrawn, Multitude continues to be confronted with an evolving regulatory landscape in select markets in the longer term. The fairly lean cost structure associated with the online platform has allowed the company to build-up diverse geographic coverage (most recently Slovenia), which mitigates the exposure to interest rate caps. However, in our view, the business profile is sensitive to and weighed down by the risk of further regulatory intervention in the wider European markets. This is reflected in Fitch's ESG considerations.

To expand the addressable client base, Multitude has been diversifying into the SME and prime consumer lending segments in recent years, rebranding the two business units as CapitalBox and SweepBank, respectively. Contributions are growing but remain a small share of the revenue base (15% for the first three quarters of 2021). Fitch expects the high-cost consumer credit segment (branded as Ferratum) to remain the predominant contributor to the group revenue in the short to medium term.

Multitude eased the stringent underwriting standards adopted at the peak of the Covid 19 pandemic and increased the size of its gross loans by 14% in the first nine months of 2021. We expect the loan book growth in 2022 and 2023 to revert to pre-pandemic momentum of about 20% to 30% per year. The scaling-up of consumer lending, combined with an expansion into new business segments with longer average facility tenors and a larger average ticket size, is likely to test the resilience of the risk management framework. However, we believe the short-term nature of its consumer loans offers the company flexibility to scale down quickly if needed.

Our assessment of Multitude's asset quality recognises a higher base line level of loan impairments compared with commercial banks (average impaired ratio between 2017 and 2020: 36.7%), largely due to the company's focus on consumers that fall outside the scope of traditional banks, increasing credit risk. Despite a modest increase in the loan book, the

impaired ratio decreased to 31.7% at end-3Q21 in comparison with 41.6% a year before. In our base case, we expect loan impairments to rise in the next two years as the company accelerates loan growth but to stay broadly within historical norms and in the range commensurate with the current rating.

Due to the accumulation of deposits, leverage remains elevated, with the gross debt to tangible equity ratio of 7.9x at end-3Q21 (6.3x at end-2020), tracking close to our base case projection of 8x. Multitude's leverage position is somewhat mitigated by the fact that funds backing deposits are primarily held in cash on balance sheet with good quality counterparties. Furthermore, excluding deposits from gross debt, the balance sheet leverage ratio reduces to 2.6x at end-3Q21, with residual debt comprising senior unsecured bonds and the subordinated perpetual capital notes. Also, Multitude has previously demonstrated flexibility in steering the deposit balance if needed, notably by reducing interest rates paid and, thereby lowering gross leverage.

Earnings generation for 2021 remained somewhat compressed as a result of the only gradual easing in credit approval criteria for the first half of the year as well as the growth in the SweepBank segment, which has notably lower margins. Supported by a reduction in loan impairments, pre-tax profits improved in 3Q21 to EUR4.6 million (from EUR2.0 million in 3Q20). In the near term, we anticipate improved revenue generation as the company returns to pre-pandemic rate of loan growth. However, we expect the revenue base will still trail pre-pandemic levels over the short to medium term, given that the need to expand new businesses could drive up operating costs and the potential risks surrounding asset quality.

Multitude benefits from a largely unsecured funding profile, comprising mainly online bank deposits and senior unsecured bonds. While we note the shoring up of the deposit book and extension of term maturities during the pandemic, our funding assessment at group level remains weighed down by the limited fungibility of funds across the group as well as the comparatively less sticky nature of these deposits compared with traditional banks.

Liquidity is adequate (EUR312 million cash buffer at end-3Q21), but the bulk of these funds is held within Ferratum Bank, including EUR4.3million held with the Maltese Central Bank for regulatory compliance purposes. Free liquidity is more limited for the wider group. The bonds issued by Ferratum Capital Germany mature in June 2022 (EUR84 million) and April 2023 (EUR59 million) and the company is actively seeking to refinance them in the coming months. Multitude also issued EUR50 million of subordinated hybrid perpetual capital notes in July 2021.

The SSR of 'ns' reflects Fitch's view that Multitude's shareholder structure means there is no reasonable assumption that extraordinary support is likely.

SENIOR UNSECURED NOTES

Ferratum Capital Germany's senior unsecured bonds are rated in line with Multitude's Long-Term IDR because Multitude acts as the guarantor of the bond issuance. The rating alignment reflects Fitch's expectation of average recovery prospects of the senior unsecured bonds, reflected in the assigned 'RR4' Recovery Rating. The bonds constitute a direct and unsecured senior obligation of Ferratum Capital Germany and rank pari passu with all present and future senior unsecured obligations of the issuer.

SUBORDINATED NOTES

The subordinated perpetual hybrid callable notes are notched down twice from Multitude's Long-Term 'B+' IDR as the notes represent subordinated obligations of the company, which rank junior to any present or future claims in respect of all unsubordinated obligations and subordinated indebtedness of the company. The notching also recognises Fitch's expectation of zero recovery prospects for the subordinated notes, which corresponds to a Recovery Rating of 'RR6'.

Multitude has an ESG Relevance Score of '4' for Exposure to Social Impacts and Customer Welfare stemming from a business model focused on high-cost consumer lending and hence exposure to shifts of consumer or social preferences and to increasing regulatory scrutiny. This has a moderately negative influence on the rating in terms of impact on the pricing strategy, product mix, and targeted customer base and is relevant to the ratings in conjunction with other factors. This is the same for other consumer finance peers in the high-cost credit sector.

RATING SENSITIVITIES

IDR

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Materially lower leverage approaching 5x on a sustained basis.
- Strengthening franchise resilience through improved scale and pricing power without a marked increase in risk appetite or a more diversified and stable business model following

the successful expansion of new business segments, combined with better franchise entrenchment and asset quality improvements.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- A significant increase in leverage measured as debt to tangible equity above 8x on a sustained basis.
- A weaker franchise, arising from a sustained loss in revenue/operational losses, an adverse reputational event, or a significant tightening of regulatory requirements in key markets resulting in a significant loss of business or notable margin pressure could result in a downgrade.
- Increased risk appetite leading to higher credit losses as the product mix evolves toward larger and longer-term origination (such as SME and prime loans), especially if combined with looser provisioning standards, pressuring profitability and ultimately eroding Multitude's capital base.
- Signs of funding weakness in the form of failure to refinance the maturing debt instruments, a loss of retail deposits at Ferratum Bank, or a loss of wholesale funding market access leading to higher refinancing risk.
- Any sustained adverse operational developments at the Ferratum Bank level (either of a regulatory nature or with regard to customer confidence), thereby impacting the company's ability to effectively leverage its banking subsidiary as a market-facing financial services provider.
- The growth of Ferratum Bank in comparison with the rest of the group leading to increased structural subordination risk for wholesale creditors outside the bank.

SENIOR UNSECURED NOTES

The senior unsecured notes' rating is primarily sensitive to changes in Multitude's Long-Term IDR. Changes to Fitch's assessment of recovery prospects for senior unsecured debt in default (e.g. the introduction of debt obligations ranking ahead of the senior unsecured debt notes) could also result in the senior unsecured notes' rating being notched below the IDR.

SUBORDINATED NOTES

The subordinated notes' rating is primarily sensitive to changes in Multitude's Long-Term IDR. Changes to Fitch's assessment of going concern loss absorption or recovery prospects for subordinated debt in a default scenario (e.g. the introduction of features resulting in easily activated going concern loss absorption or a permanent write-down of the principal in wind-down) could also result in a widening of the notching for the subordinated notes' rating to more than two notches below Multitude's Long-Term IDR.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Multitude SE has an ESG Relevance Score of '4' for Exposure to Social Impacts due to {DESCRIPTION OF ISSUE/RATIONALE}, which has a negative impact on the credit profile, and is relevant to the rating[s] in conjunction with other factors.

Multitude SE has an ESG Relevance Score of '4' for Customer Welfare - Fair Messaging, Privacy & Data Security due to {DESCRIPTION OF ISSUE/RATIONALE}, which has a negative impact on the credit profile, and is relevant to the rating[s] in conjunction with other factors.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means 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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY / DEBT ⇅	RATING ⇅			RECOVERY ⇅	PRIOR ⇅
Multitude SE	LT IDR				B+ Rating Outlook Negative
	B+ Rating Outlook Stable				
	Affirmed				
	Shareholder Support ns				
	New Rating				
subordinated	LT	B-	Affirmed	RR6	B-
Ferratum Capital Germany GmbH					
senior unsecured	LT	B+	Affirmed	RR4	B+

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Corporate Hybrids Treatment and Notching Criteria \(pub. 12 Nov 2020\)](#)

[Non-Bank Financial Institutions Rating Criteria \(pub. 31 Jan 2022\) \(including rating assumption sensitivity\)](#)

ADDITIONAL DISCLOSURES

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Non-Bank Financial Institutions Europe Germany Finland
