

S&P revises Republic, First Citizens, NGC to negative



President and managing director of Republic Bank Ltd, Nigel Baptiste

S&P Global Ratings revised the outlook of three companies in which the State has an ownership stake—Republic Bank Ltd, First Citizens Group and the National Gas Company of T&T (NGC)—from stable to negative last Friday, the day after the international rating agency lowered the Government’s outlook.

In its rating report on the two banks, in which the State controls a majority shareholding, S&P explained that last Thursday, it revised the outlook on its BBB- long-term issuer credit rating on T&T from stable to negative “because fiscal and external buffers have eroded gradually over many years, reflecting the limited effectiveness of long-standing efforts to boost GDP growth and strengthen fiscal management.”

S&P said that “as a result” on Friday, it revised the outlook on the two domestic lenders from stable to negative, while affirming its long-term BBB- and short-term A-3 ratings on them.

The rating agency explained that the rating on T&T limits those on the banks, “given their large exposure to the country in the form of loans and investments. Thus, we consider that a sovereign stress would affect the entities’ business operations and creditworthiness.”

The rating agency said in addition, both banks operate with stand-alone credit profiles (SACPs) of ‘bbb’, one notch above the ‘BBB-’ long-term foreign currency sovereign rating.

“As a result, a potential downgrade of the sovereign (T&T) would result in a similar action for both banks. Therefore, we revised the outlook on both banks to negative from stable following the same action on T&T,” S&P said.

The rating agency said the negative outlook on Republic Bank and First Citizens mirrors that on T&T, “reflecting our view that there is at least a one-in-three chance we could lower the sovereign ratings over the next six to 24 months.”

But the rating agency noted the intrinsic creditworthiness of the two banks remains stable.

“We think the banks will continue benefiting from sound market positions in the domestic banking system, solid income diversification, and good earnings prospects.

“They will also continue to have sound capital, liquidity, and credit loss reserves, protecting their creditworthiness from hypothetical strains on asset quality. The banks have adequate funding and liquidity bases, in line with the domestic banking system average.”

In providing its downside scenario, S&P said that it expects its ratings on the banks will move in tandem with those on the Government of T&T because of their high exposure to the domestic market.

In its upside scenario, the rating agency said it could revise its outlook on the banks to stable if it were to take similar action on the T&T Government.

The Government, through Corporation Sole, controls a majority 51.4 per cent shareholding of RFHL and 61.1 per cent of First Citizens.

Contacted for comment, the bank’s president and managing director, Nigel Baptiste, said, “The revision by S&P to the outlook of the Republic Bank Ltd is normal and was expected. There are no implications.”

NGC’s outlook S&P said its ratings of NGC also moved in tandem with those of the Government, and its outlook mirrors that of T&T.

“We consider that NGC plays a very important role in T&T because it provides services that can’t be easily replaced in the short to medium term, because it’s the only natural gas purchaser, transporter, and seller to domestic industries.

“In addition, we believe the company has a very strong link with the Government, given that the latter fully owns NGC.”