

EuroRating affirmed 'A-' credit rating with a stable outlook assigned to the guarantee fund ZKL Invest Ltd

Public / Private rating	public
Continued / One off rating	continued (monitored rating)
Category	rating for the company/issuer
Name of the rated entity	ZKL Invest Ltd (United Kingdom)
Type of the rated entity	guarantee fund
Type of the credit rating	long-term, international scale
Date of rating assignment	12 December 2023
Rating level	A-
Rating outlook	stable

Warsaw, 12 December 2023 – The EuroRating credit rating agency has revised the credit rating of the guarantee fund ZKL Invest Ltd (London, United Kingdom). The rating has been affirmed at 'A-' with a stable outlook.

KEY RATING DRIVERS

Very conservative and safe financing: The liabilities and equity of ZKL Invest's balance sheet in recent years consisted almost entirely of equity. The company had almost no interest-bearing liabilities.

High quality and liquidity of assets: The majority of the company's assets, totalling £18 million, consist of German treasury bonds, (i.e. issued by a country which can be assessed as financially very reliable). These bonds can be easily sold on the market if there is a need to make surety payments.

Current low exposure to risk of granted sureties: The ratio of the active sureties portfolio value to the company's equity (the capital multiplier) as of July 2023 was at a low and secure level, approximately 1x. However, EuroRating notes, that after the company's entry into the Romanian market, the multiplier value has been increasing.

Additional security of granted sureties: In most cases, ZKL Invest requires additional collateral from its clients for the sureties granted. This collateral can take the form of bank checks, ownership titles to assets and buildings, personal guarantees by shareholders and a percentage of the surety value in the form of a bank deposit. These measures can potentially limit the risk of losses on sureties.

Positive financial results: In the last three financial years, ZKL Invest consistently achieved positive net results, which were derived from both sales income and financial income, including interest earned on the treasury bonds it holds. The stable interest income from these bonds is sufficient to cover the company's operating expenses.

No payment of sureties: According to the company's director, all surety bonds are exclusively provided to companies with a long-standing relationship with the company's management. These firms have consistently demonstrated a robust financial performance in recent years and ZKL has not been required to make any surety payments on their behalf.

Good competitive position on Romanian market: In November 2022 ZKL Invest Ltd opened a new company in Bucharest, which will manage only marketing side of the project. The National Bank of Romania and the ASF (the financial supervisory authority for insurance companies) have closed several local financial institutions that were competing with ZKL. This development has potentially eased the company's entry into this market.

Significant concentration of the surety portfolio: The value of the 20 largest granted sureties constituted almost two-thirds of the total portfolio value and the equity value at the end of July 2023. EuroRating assesses the risk exposure of ZKL Invest to the largest sureties as elevated. However, only four sureties exceed the equivalent of 5% of the company's equity. Therefore, the overall concentration of sureties can be viewed as moderate.

Risk of a loss of the treasury bonds value: As the company's assets primarily consist of long-term (maturing in 2034) fixed-rate German treasury bonds, a significant increase in interest rates by the ECB can lead to a potential decrease in the current market value of the bonds.

Company managed by the owner: ZKL Invest is a family-owned company with Mr. Agostino Raffaele Luongo being both the owner and CEO, which eliminates the potential for any conflicts of interest between ownership and management.

Long experience in tender guarantees market: Mr. Agostino Luongo, the director of ZKL Invest Ltd, has 25 years of experience in the tender guarantees market, which is the market that the company operates in. The company serves a limited number of companies in the construction industry and the management team is well acquainted with these companies, which should reduce credit risk.

Short history of operations: Although the company exists since 2017, it conducts operating activities in the field of sureties granting only for three years.

Lack of formal internal procedures: ZKL Invest does not have formal procedures in place that describe the selection of clients and the conditions for granting sureties.

Unaudited financial statements: The company is entitled for an exemption from the audit of its annual financial statements under section 477 of the Companies Act 2006, which applies to small companies. Nevertheless, the absence of an external independent financial audit raises uncertainty about the accuracy of the company's accounting records, especially considering that the accounting is managed by an external entity.

STABLE RATING OUTLOOK

The stable outlook attributed to the assigned credit rating means, that according to current estimates of the EuroRating credit rating agency the rating should most likely remain unchanged in the horizon of the next 12 months.

MAIN FACTORS THAT COULD LEAD TO A RATING CHANGE

To the most important potential factors that (individually or collectively) could have a positive impact on the assigned credit rating, EuroRating includes: maintaining a low relation of sureties granted to equity (capital multiplier); an increase in revenue and net profit, along with the growth of equity value; continued absence of surety payouts; greater customer diversification; introduction of internal procedures describing the methods of selection of new clients and granting sureties, as well as rules on a diversification of sureties portfolio; successful business development on the Romanian market.

To the potential factors that could negatively influence the current level of the credit rating, EuroRating includes, among others: a significant growth of the value of sureties granted, resulting in a large increase of the capital multiplier; possible large surety payouts; generating losses and a significant decrease in the company's equity; an increase of the concentration of the sureties portfolio; granting larger than the current biggest single sureties; a significant decline in the value of assets (ie. bonds, eg. as a result of interest rates increase).

BEST/WORST RATING SCENARIO

The full range of best- and worst-case scenarios for all rating categories spans from 'AAA' to 'D'. Historical long-term statistics on rating migrations (changes between individual rating classes) for entities rated by EuroRating are published in the report on rating statistics, available at: <https://www.eurorating.com/en/ratings/statistics> (annexes No. 6-9).

REGULATORY DISCLOSURES

Information on the EuroRating credit rating agency

EuroRating is a fully independent international credit rating agency operating since 2007, specializing in assessing the credit risk of enterprises and financial institutions. EuroRating Sp. z o.o. is formally registered by the European Securities and Markets Authority (ESMA) as a credit rating agency authorized to issue public credit ratings throughout the European Union (in accordance with the Regulation of the European Parliament and of the Council No. 1060/2009 on credit rating agencies) and is under direct supervision of ESMA.

EuroRating holds the ECAI (External Credit Assessment Institution) status in the European Union, pursuant to the Regulation of the European Parliament and of the Council No. 575/2013 on prudential requirements for credit institutions and investment firms (CRR Directive). The credit ratings (including unsolicited ratings) assigned by EuroRating are valid throughout the European Union and can be used for regulatory purposes under EU legislation by all financial institutions or any other entities and are entirely equal to credit ratings issued by other credit rating agencies registered by ESMA.

The credit ratings assigned by EuroRating to credit guarantee funds can be used by banks that accept guarantees from these funds for regulatory purposes. This includes calculating capital requirements for guaranteed loans (in accordance with the CRR Regulation).

Methodology

The presented credit rating for the issuer assigned to the company ZKL Invest Ltd is a general assessment of the creditworthiness of the rated entity and it concerns the credit risk of its senior, unsecured and unsubordinated financial liabilities – including those resulting from sureties granted.

The presented credit rating has been assigned in accordance with the Regulation (EC) No. 1060/2009 of the European Parliament and of the Council on credit rating agencies.

The methodology used in this rating was "Credit rating methodology for guarantee funds" published in June 2023 and available at: <https://www.eurorating.com/en/ratings/methodology/credit-risk-assessment-methodology>

The rating scale of the EuroRating credit rating agency as well as detailed rating definitions are published at: <https://www.eurorating.com/en/ratings/rating-scale>

Historical default statistics for entities assessed by EuroRating are published in the report on rating statistics, available at: <https://www.eurorating.com/en/ratings/statistics>

EuroRating's definition of default as well as definitions of rating notations can be found in the agency's website at: <https://www.eurorating.com/en/ratings/methodology/definition-of-default>

Credit ratings assigned by the EuroRating credit rating agency are not solely estimates of the probability of default of a rated entity, but represent a total estimated assessment of a risk of loss (i.e. the ultimate loss of part or all of the receivables along with any interest) by the creditors of the rated entity in the event of its default. Ratings assigned by EuroRating therefore express a combination of the estimated probability of default of the rated entity and the estimated level of loss of receivables by its creditors in the event of an actual default (Loss Given Default).

Public status of the credit rating / terms of use

The presented credit rating for the guarantee fund ZKL Invest Ltd is a public rating. The date of the first publication of the rating, the current rating level and the full rating history are published free of charge on the European Rating Platform provided by ESMA (https://registers.esma.europa.eu/publication/searchRegister?core=esma_registers_radar), as well as on the EuroRating's website in the section "Credit ratings", in the relevant tab on the rated entity/security.

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Solicitation status

The credit rating for ZKL Invest Ltd was solicited by the rated entity. The rated entity and/or its agents has participated in the rating process by providing the agency documents, information and explanations concerning its economic and financial situation.

The main sources of information used in the rating process were annual and quarterly financial statements of ZKL Invest Ltd, data concerning sureties granted (and to be granted), capital investments, and other data, information and explanation provided by the rated company.

Prior to the issuance of the rating or outlook action, the rated entity was given the opportunity to review the rating and/or outlook and the principal grounds on which the credit rating and/or outlook is based. The rating was issued without any changes resulting from that disclosure.

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