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LQ Inversiones Financieras S.A.

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LQ Inversiones Financieras S.A.

Ratings Score Snapshot

Issuer Credit Rating
A-/Negative/A-2

GCP: a → **Support: 0** → **Additional factors: -1**

Anchor	bbb+	
Business position	Strong	+1
Capital and earnings	Adequate	0
Risk position	Adequate	0
Funding	Adequate	0
Liquidity	Adequate	
CRA adjustment		+1

ALAC support	0
GRE support	0
Group support	0
Sovereign support	0

Holding company ICR
A-/Negative/A-2

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Credit Highlights

Overview

Key strengths	**Key risks**
Solid earnings and cash flow underpinned by Banco de Chile's good earnings capacity.	High reliance on dividend flows for debt repayment.
Low double leverage.	Weak investor sentiment in Chile because of the ongoing debate on several reforms.

The ratings on LQ Inversiones Financieras S.A. (LQIF) reflect its status as a nonoperating holding company. LQIF is a Chilean holding company that directly and indirectly holds 51.15% of shares in Banco de Chile (A/Negative/A-1), its sole operating subsidiary. As a result, LQIF's group credit profile (GCP) mainly reflects Banco de Chile's credit quality. In addition, our issuer credit rating on LQIF is one notch below an 'a' GCP due to the holding company's dependence on the bank's upstream dividends to service its debt. Our analysis continues to incorporate Citibank N.A.'s (A+/Stable/A-1) and Quinenco S.A.'s (not rated) ownership of LQIF.

The GCP doesn't include potential extraordinary government support, because we expect such support would flow to the bank but wouldn't be extended to LQIF.

We expect LQIF to continue to benefit from Banco de Chile's dividends. We believe LQIF has comfortable debt service coverage from the dividends of Banco de Chile. We expect the bank will maintain a 60% dividend payout in upcoming years, and LQIF's debt service payment and expenses coverage to dividends to remain between 8x and 10x. LQIF has two outstanding domestic market issuances: series C notes for Unidad de Fomento (UF; a Chilean unit of account indexed to inflation) 3 million (about $121 million) maturing in 2039 and series D notes for UF3.3 million ($134 million after payment of two capital installments) maturing in 2033. The series D notes started to amortize in May 2022, about 8% of capital, while the series C notes won't start amortizing until 2029. LQIF's double leverage remains low at about 77%, where we expect it to remain for the next 24 months.

For the next 24 months, we forecast Banco de Chile will post a return on average assets of 1.6%-1.8% and return on equity at 18%-20% amid normalization of inflation and moderate economic activity. Banco de Chile presents good profitability, with a focus on efficiency and profitability indicators stronger than other banks in Chile. In 2023, Banco de Chile's profitability started converging to historical levels after record levels in 2022. In the first nine months of the year, the bank posted a return on average assets of 2.1% and a return on average common equity of 23.2%, down from 2.7% and 31.8%, respectively, as of September 2022. The lower results are mainly the result of tighter margins, given the gradual normalization of inflation and its impact on the bank's long positions in inflation-adjusted assets, and higher funding costs due to still high interest rates and the higher share of term deposits.

In our opinion, LQIF's 'a' GCP reflects Banco de Chile's credit quality. LQIF's GCP benefits from Banco de Chile's well-established brand and significant footprint in the Chilean financial system. We expect some deterioration in Banco de Chile's asset quality metrics but to remain manageable and move with those of the Chilean financial system. We anticipate high interest rates and inflation will continue pressuring borrowers in 2023. We also expect soft economic performance and for customer payment behavior to normalize as excess liquidity in the economy (related to pandemic-related support measures) diminishes. As of September 2023, the bank's nonperforming loans (90-day past-due customer loans) increased to 1.3% from 1.1% in 2022, while the industry average edged up to 2.0% from 1.7%. We also consider Banco de Chile's ample access to deposits, diversified funding structure, and adequate liquidity.

We project LQIF's risk-adjusted capital ratio to be 9.3%-9.7% in the next 24 months. This largely reflects Banco de Chile's balance sheet growth and profitability. However, we expect LQIF to distribute to shareholders any excess liquidity from Banco de Chile's dividend payout.

Outlook

The negative outlook on LQIF incorporates our view of the economic risk in Chile's Banking Industry Country Risk Assessment (BICRA) and that of its sole operating subsidiary, Banco de Chile, which also reflects the negative sovereign rating.

Downside scenario

A downgrade at the holding level could occur in the next 24 months if we revise the economic risk score in Chile's BICRA to a weaker category (reflecting higher average risk for banks operating in the country) or if we revise Banco de Chile's SACP downward by one notch. In addition, we could lower the rating if we took the same action on Banco de Chile following a downgrade of the sovereign.

Upside scenario

We could revise the outlook on the holding to stable if we took the same action on Banco de Chile, following the revision of the outlook on the sovereign. At the same time, we would need to revise the economic risk in Chile's BICRA to stable, while all the bank's fundamentals remain unchanged.

Environmental, Social, And Governance

Environmental, social, and governance factors have no material influence on our credit rating analysis of LQIF.

Key Statistics

Table 1

LQ Inversiones Financieras S.A.--Key figures

		--Year-ended Dec. 31--			
(Mil. CLP)	**2023***	**2022**	**2021**	**2020**	**2019**
Adjusted assets	54,156,587.0	55,149,373.8	51,630,267.8	46,037,792.0	41,216,744.3
Customer loans (gross)	35,662,127.7	35,916,412.9	34,256,182.0	30,936,966.8	30,019,466.0
Adjusted common equity	4,603,778.8	4,716,424.3	4,047,862.0	3,524,865.2	3,374,743.9
Operating revenues	1,525,932.5	3,251,449.8	2,352,741.1	2,041,639.8	2,116,603.3
Noninterest expenses	616,616.7	1,171,734.9	1,031,296.3	988,966.8	1,036,285.5
Core earnings	584,944.1	1,368,841.3	771,331.4	466,161.6	565,119.6

*Data as of June 30.

Table 2

LQ Inversiones Financieras S.A.--Business position					
		--Year-ended Dec. 31--			
(%)	2023*	2022	2021	2020	2019
Return on average common equity	36.6	45.0	28.7	17.9	22.8

*Data as of June 30.

Table 3

LQ Inversiones Financieras S.A.--Capital and earnings					
		--Year-ended Dec. 31--			
(%)	2023*	2022	2021	2020	2019
S&P Global Ratings' RAC ratio before diversification	N/A	9.6	9.2	N/A	7.6
S&P Global Ratings' RAC ratio after diversification	N/A	8.2	7.7	N/A	6.3
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	60.2	68.5	66.3	63.9	63.0
Fee income/operating revenues	22.9	20.8	24.8	27.5	27.8
Market-sensitive income/operating revenues	14.6	9.3	7.3	7.1	7.0
Cost to income ratio	40.4	36.0	43.8	48.4	49.0
Preprovision operating income/average assets	3.3	3.8	2.7	2.4	2.7
Core earnings/average managed assets	2.1	2.5	1.6	1.0	1.4

*Data as of June 30. N/A--Not applicable.

Table 4

LQ Inversiones Financieras S.A.--Risk position					
		--Year-ended Dec. 31--			
(%)	2023*	2022	2021	2020	2019
Growth in customer loans	-1.4	4.8	10.7	3.1	7.5
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	17.2	19.6	N/A	21.1
Total managed assets/adjusted common equity (x)	12.0	11.9	13.0	13.3	12.5
New loan loss provisions/average customer loans	1.0	1.2	1.1	1.5	1.2
Net charge-offs/average customer loans	1.0	0.6	0.5	0.9	0.9
Gross nonperforming assets/customer loans + other real estate owned	1.4	1.1	0.9	1.0	1.4
Loan loss reserves/gross nonperforming assets	N/A	N/A	237.9	244.7	159.0

*Data as of June 30. N/A--Not applicable.

Table 5

LQ Inversiones Financieras S.A.--Funding and liquidity					
		--Year-ended Dec. 31--			
(%)	2023*	2022	2021	2020	2019
Core deposits/funding base	63.0	61.8	64.4	63.0	66.2
Customer loans (net)/customer deposits	127.8	130.4	121.2	125.4	132.2
Long-term funding ratio	88.8	94.2	93.5	96.9	92.0
Stable funding ratio	110.1	117.4	118.6	122.2	105.2
Short-term wholesale funding/funding base	12.3	6.4	7.1	3.4	8.8

Table 5

LQ Inversiones Financieras S.A.--Funding and liquidity (cont.)					
		--Year-ended Dec. 31--			
(%)	**2023***	**2022**	**2021**	**2020**	**2019**
Broad liquid assets/short-term wholesale funding (x)	2.7	5.5	3.8	7.9	2.1
Broad liquid assets/total assets	26.7	27.7	22.1	22.0	14.6
Broad liquid assets/customer deposits	52.7	56.5	41.9	42.9	27.8
Net broad liquid assets/short-term customer deposits	72.4	95.0	46.0	59.4	14.8
Short-term wholesale funding/total wholesale funding	33.3	16.7	20.0	9.3	26.0

*Data as of June 30.

LQ Inversiones Financieras S.A.--Rating component scores	
Holding company issuer credit rating	**A-/Negative/A-2**
GCP	a
Anchor	bbb+
Economic risk	4
Industry risk	3
Business position	Strong
Capital and earnings	Adequate
Risk position	Adequate
Funding	Adequate
Liquidity	Adequate
Comparable ratings analysis	+1
Support	0
ALAC support	0
GRE support	0
Group support	0
Sovereign support	0
Additional factors	-1

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017

- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Banking Industry Country Risk Assessment: Chile, Oct. 31, 2023
- Outlooks On Two Chilean Financial Institutions Revised To Negative Following Same Action On Sovereign, Oct. 20, 2023
- Chile Outlook Revised To Negative On Weaker Political Consensus; 'A/A-1' Foreign Currency Ratings Affirmed, Oct. 19, 2023
- Banco de Chile, Aug. 30, 2023

Ratings Detail (As Of November 21, 2023)*	
LQ Inversiones Financieras S.A.	
Issuer Credit Rating	A-/Negative/A-2
Issuer Credit Ratings History	
03-Apr-2020	A-/Negative/A-2
22-Aug-2018	A-/Stable/A-2
04-Aug-2017	A-/Negative/A-2
Sovereign Rating	
Chile	
Foreign Currency	A/Negative/A-1
Local Currency	A+/Negative/A-1
Related Entities	
Banco de Chile	
Issuer Credit Rating	A/Negative/A-1
Commercial Paper	
Foreign Currency	A-1
Senior Unsecured	A

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.