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Ratings

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Research Update:

DDM Debt AB Affirmed At 'B', Outlook Revised To Negative; Rating Withdrawn At Issuer’s Request

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Rating Action Overview

- We consider DDM Debt AB's planned acquisition of Swiss Bankers Prepaid Services to be a strategic shift from its core business of acquiring secured distressed debt.
- More broadly, we anticipate that DDM's financial metrics could weaken as a result of a decline in portfolio investments, contrary to our previous forecasts.
- Consequently, we revised our outlook to negative and affirmed our 'B' long-term issuer credit rating on DDM.
- We subsequently withdrew our 'B' ratings on DDM and its senior secured notes at the company's request.

Rating Action Rationale

As a small-debt purchaser, DDM's planned acquisition of Swiss Bankers is a deviation from its core business, in our view. DDM is a niche player among distressed debt purchasers we rate. It has primarily focused on investing in debt portfolios across Central, Eastern, and Southern Europe. DDM is now in the process of acquiring Swiss Bankers, a specialist lender that focuses on providing prepaid cards in Swiss franc, euros, and U.S. dollars in Switzerland, Liechtenstein, and southern Germany, which as a result of travel restrictions during the pandemic has seen its business suffer. Regulatory approval of the acquisition is still pending. We understand that DDM will work to restructure the bank, which also has an e-money license in Lichtenstein. We view the acquisition as a shift in strategy that could weigh on DDM's creditworthiness if the outcome is not what DDM expects. We think a material positive impact on DDM's financials is unlikely over the medium term.

Meanwhile, DDM's investment in nonperforming portfolios was slower than anticipated in 2021. Invested assets stood at about €165 million at year-end 2021, indicating investment was slower than in previous years and our projections. Although the expected rate of collection has recovered, it is still lower than in 2019. As a result, we believe that revenue could be lower than we projected and therefore could lead to a deterioration of financial risk metrics. Previously, we anticipated that for 2021 debt to EBITDA including cash amortization would be 3x-4x, and debt to statutory EBITDA at 8x-10x. However, we now expect these ratios could be closer to 5x-6x and 20x-22x, respectively, because of less robust revenue growth. Although DDM's recently announced partnership with Borgosesia will likely lead to a steady stream of distressed real estate assets in northern Italy, the transactions will be smaller; DDM targets an investment volume of up to €100 million over the coming three years.

Having recently completed a refinancing, DDM is unlikely to issue further debt in 2022. As a result of the refinancing completed last year, DDM's portfolio now has a weighted average maturity of approximately 4.2 years. This incorporates the group's €200 million senior secured notes that mature in 2026 and a privately arranged €18 million senior secured note that matures in 2022 but we believe will be rolled over. In our view, liquidity will likely be adequate for the next 12 months. We expect that any further debt financing would likely be coupled with a round of equity investment, since bond covenants stipulate an equity ratio of at least 20% and as of year-end 2021 equity to total assets was 21%.

Outlook

Our negative outlook reflects increased uncertainties about the group's new strategic set up stemming from DDM's planned acquisition of Swiss Bankers. While opportunistic, the potential acquisition is a departure from DDM's core business of investing in distressed real estate portfolios. In addition, a deterioration of the revenue profile is likely to weigh on the group's financial metrics, given investment volumes have been smaller than we expected.

Downside scenario

We would lower the ratings if we saw that integration of the planned Swiss Bankers acquisition did not go smoothly or the group was unable to successfully restructure Swiss Bankers' business, which could create an increased management burden for DDM and weigh on its financial metrics. This could manifest in unforeseen costs related to the transaction and, potentially, a lower return on the investment than anticipated.

Similarly, restrained revenue from invested real estate asset portfolios could also lead to higher-than-expected leverage and to a downgrade.

Upside scenario

A positive rating action hinges on the improvement of financial metrics such that the gap between DDM and other rated debt purchasing peers narrowed, and debt to EBITDA including cash approached 4.0x.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	**B/Negative/--**	**B/Stable/--**
Business risk:	Weak	Weak
Country risk	Moderately high	Moderately high

	To	**From**
Issuer Credit Rating	**B/Negative/--**	**B/Stable/--**
Industry risk	Moderately High	Moderately High
Competitive position	Weak	Weak
Financial risk:	Highly leveraged	Highly leveraged
Cash flow/leverage	Highly leveraged	Highly leveraged
Anchor	b	b
Modifiers:		
Diversification/Portfolio effect	Neutral (no impact)	Neutral (no impact)
Capital structure	Neutral (no impact)	Neutral (no impact)
Financial policy	Neutral (no impact)	Neutral (no impact)
Liquidity	Adequate (no impact)	Adequate (no impact)
Management and governance	Fair (no impact)	Fair (no impact)
Comparable rating analysis	Neutral	Neutral
Stand-alone credit profile:	b	b
Group credit profile	B	B

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Financial Institutions | General: Issue Credit Rating Methodology For Nonbank Financial Services Companies, Dec. 9, 2014
- Criteria | Corporates | General: The Treatment Of Non-Common Equity Financing In Nonfinancial Corporate Entities, April 29, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Europe's Distressed Debt Purchasers Set A Course For Growth In 2022, Feb. 9, 2022
- Research Update: DDM Debt AB Assigned Prelim 'B' Rating On Continued Opportunistic Growth Plans; Outlook Stable, March 22, 2021

Ratings List

Ratings Affirmed; Ratings Withdrawn			
	Final	**To**	**From**
DDM Debt AB			
Senior Secured	NR	B	
Ratings Affirmed; Outlook Action; Ratings Withdrawn			
	Final	**To**	**From**
DDM Debt AB			
Issuer Credit Rating	NR	B/Negative/--	B/Stable/--
Ratings Affirmed; Ratings Withdrawn			
DDM Debt AB			
Senior Secured			
Local Currency	NR	B	
Recovery Rating	NR	4(35%)	